

# **ALFRED DUMA LOCAL MUNICIPALITY**

**“The Municipality”**



## **DRAFT CUSTOMER CARE, CREDIT CONTROL AND DEBT COLLECTION POLICY**

**2019/2020**

1. DEFINITIONS .....	4-5
2. <u>PREAMBLE</u> .....	6
3. <u>OBJECTIVES</u> .....	6
4. PRINCIPLES .....	6-7
5. DUTIES AND FUNCTIONS .....	8
5.1 The duties and functions of the Municipal Council are to: .....	8-8
5.2 The duties and functions of the Executive Committee are to: .....	8
5.3 The duties and functions of the Municipal Manager are to: .....	9-9
5.4 The duties and functions of communities, ratepayers and residents are to: .....	9
5.5 Duties and Functions of Ward Councillors and Political Parties are to: .....	10
6. CUSTOMER CARE POLICY .....	10
6.1 Customer Feedback .....	10-10
6.2 Handling of Complaints.....	10
6.3 Metering .....	11-11
6.4 Accounts and Billing .....	11-12
6.5 Enquiries, Appeals and Service Complaints .....	13
6.6 Payment Facilities and Methods .....	14-14
6.7 Performance Targets.....	15
7. CREDIT CONTROL POLICY .....	15
7.1 Service Application & Connection.....	15-16
7.2 Customer Screening and Securities/Deposits.....	17-17
7.3 Consolidated Accounts.....	18
7.4 Arrears .....	18-18
7.5 Incentives for Prompt Payments .....	19
7.6 Right to Access Premises.....	19
7.7 Different Categories of Debtors .....	19
8. DEBT COLLECTION POLICY .....	18
8.1 Responsibility for amounts .....	18-19
8.2 Enforcement Mechanisms .....	19-22
8.3 Cost of Collection .....	23
8.4 Rates Clearance.....	23
8.5 Arrangements for Settlement.....	23
8.6 Abandonment of Claims .....	26-24
9. CUSTOMER ASSISTANCE PROGRAMMES .....	27
9.1 Indigent Policy.....	27
9.2 Rates Rebates.....	27
9.3 Rates by Instalments .....	24
9.4 Indigent Subsidy.....	25

9.5 Relief in certain circumstances.....	25
10. REPORTING .....	25
11. PERFORMANCE EVALUATION.....	28
12. TERMINATION OF SERVICE OR RESTRICTION.....	28
13. UNAUTHORISED CONSUMPTION / TAMPERING / THEFT OF SERVICES.....	28
14. IMPAIRMENT OF DEBTORS (PROVISION FOR DOUBTFUL DEBTORS.....	26-28
15. BAD DEBTS .....	30-30
16. ENFORCEMENT OF OTHER LEGISLATIONS & INCONSISTENCIES.....	30-31
17. DELEGATIONS .....	33

## 1. DEFINITIONS

For the purpose of these by-laws, any word or expressions to which a meaning has been assigned in the Act shall bear the same meaning in these by-laws and unless the context indicates otherwise.

**“Account”** means any account rendered for municipal services provided;

**“Act”** means the Local Government: Municipal System Act 32 of 2000 as amended;

**“Authorised agent”** means-

- a) Any person authorised by the Municipal Council to perform any act, function or duty in terms of, or exercise any power under these By-laws; and/or
- b) Any person to whom the Municipal Council has delegated the performance of certain rights, duties and obligation in respect of providing revenue services; and/or
- c) Any person appointed by the Municipal Council in terms of a written contract as a service provider to provide revenue services to customers on its behalf, to the extent authorised in such contract;

**“Chief Financial Officer”** means the Chief Financial Officer of Alfred Duma Local Municipality;

**“Customer”** means a person with whom the Municipality or its authorised agent has concluded an agreement for the provision of municipal services;

**“Defaulter”** means a customer/ owner who owes arrears;

**“Estimated Consumption”** Means the deemed consumption by a customer whose consumption is not measured during a specific period, which estimated consumption is rationally determined taking into account at least the consumption of municipal services for a specific level of service during a specific period in the area of supply of the municipality or its authorised agent.

**“Household”** means a traditional family unit consisting of a maximum of eight persons (being a combination of four persons over the age of eighteen and four persons eighteen years or younger);

**“Municipality”** means the Municipality of Alfred Duma Local Municipality (KZN 238);

**“Municipal Council”** means the municipal Council of Alfred Duma Municipality

**“Municipal Manager”** means the Accounting Officer of Alfred Duma Local Municipality;

**“Municipal services”** means services provided by the Municipality or its authorised agent, including refuse removal, electricity services, rates and sundries or any one of the above;

**“Occupier”** includes any person in actual occupation of the land or premises without regard to the title under which he occupies, and, in the case of premises sub-divided and let to lodgers or various tenants, shall include the person receiving the rent payable by the lodgers or tenants whether for his/her own account or as an agent for any person entitled thereto or interested therein;

**“Owner”** means-

- a) the person in whom is vested the legal title to a premises;
- b) in the case where the person in whom the legal title to a premises is vested is insolvent or dead, or is under any form of legal disability whatsoever, the person in whom the administration and control of such premises is vested as curator, trustee, executor, administrator, judicial manager, liquidator or other legal representative;
- c) in any case where the Municipality or its authorised agent is unable to determine the identity of such person, a person who is entitled to the benefit of the use of such premises or a building thereon;
- d) in the case of premises for which a lease agreement of thirty (30) years or longer has been entered into, the lessee thereof;
- e) in relation to Ingonyama Trust Board Members that owns and administers Ingonyama Trust land in terms of the KwaZulu Ingonyama Trust Act, (KwaZulu Act No 3 of 1994) (“ITA”).

**“Property”** means any portion of land, of which the boundaries are determined within the jurisdiction of the Municipality, defined in terms of Municipal Property Rates Act 6 of 2004 (“MPRA”) as:

- a) immovable property registered in the name of a person;
- b) a right registered against immovable property in the name of a person;
- c) a land tenure right registered in the name of a person or granted to a person in terms of legislation or;
- d) public service infrastructure.

## 2. **PREAMBLE**

**WHEREAS** section 96 of the Local Government: Municipal Systems Act, 2000 (Act 32 of 2000) requires a Municipality to adopt, maintain and implement a credit control, debt collection and customer care policy;

**AND WHEREAS** section 97 of the Systems Act prescribes what such policy must provide for; **NOW THEREFORE** the Alfred Duma Local Municipality adopts the policies as set out in this document.

## 3. **OBJECTIVES**

- 3.1 Customer Care: To create a positive relationship and co-operation between persons liable for any payment and the Municipality, and where applicable, a service provider, and to provide a pro-active way to enhance the payment of services and in response to consumers' needs.
- 3.2 Credit Control: To implement procedures, which ensure the collection of debt, meeting service targets and the prevention of escalation of arrear debt, and to provide incentives for prompt payment, as well as ensuring limited risk levels by means of effective management tools.
- 3.3 Debt Collection: To provide procedures and mechanisms to collect all monies due to Council arising from services rendered and annual levies in order to ensure financial sustainability and delivery of municipal services in the interest of the community.
- 3.4 Indigent Subsidy: To facilitate and provide funding (financial assistance) for a basic level of services that is linked to the tariff policies to qualifying households which are poor. The subsidy and qualification criteria will be a separate policy referred to in the Customer Care, Credit Control and Debt Collection Policy as the Indigent Policy.

## 4. **PRINCIPLES**

- 4.1 The administrative integrity of the Municipality must be maintained at all times. The democratically elected Councillors are responsible for policy-making, while it is the responsibility of the Municipal Manager to ensure the execution of these policies.
- 4.2 All owners must complete an official application form, formally requesting the Municipality to connect them to service supply lines.
- 4.3 A copy of the application form, conditions of services and extracts of the relevant Council's credit control and debt collection policy and by-laws must be handed to every customer on request at such fees as may be prescribed by Council.

- 4.4 Billing is to be accurate, timeous and understandable.
- 4.5 The customer is entitled to reasonable access to pay points and to a variety of reliable payment methods.
- 4.6 The customer is entitled to an efficient, effective and reasonable response to appeals, and should suffer no disadvantage during the processing of a reasonable appeal.
- 4.7 Enforcement of payment must be prompt, consistent and effective.
- 4.8 Unauthorised consumption, connection and reconnection, the tampering with or theft of meters, service supply equipment and/or the reticulation network, and fraudulent activity will lead to disconnections, penalties, loss of rights and criminal prosecutions.
- 4.9 Incentives and disincentives may be used in collection procedures.
- 4.10 The collection process will be cost effective.
- 4.11 "Best Practices" will be pursued.
- 4.12 Performance results will be regularly and efficiently reported to Council.
- 4.13 Application forms will be used to categorise customers / owners and to determine whether the customer / owner qualifies for indigent subsidy, and the method to supply electricity via pre-payment or credit electricity meters.
- 4.14 Targets for performance in both customer service and debt collection will be set and pursued and remedies implemented for non-performance.
- 4.15 Although customer care and debt collection are inter-related, two separate sections must handle them on an independent basis.
- 4.16 The customer's debt must arise out of a legal framework and must be legally collectable. The principle of providing service in lieu of payment for arrear accounts is supported.

## **5. DUTIES AND FUNCTIONS**

### **5.1 The duties and functions of the Municipal Council are to:**

- a) Approve a budget consistent with the needs of communities, ratepayers and residents,
- b) Impose rates and taxes and to determine service charges, fees and penalties to finance the budget;
- c) Provide sufficient funds to give access to basic services for the poorest of the poor as referred to in the Indigent Support Policy.
- d) Provide for bad debt, in line with the payment record of the community, ratepayers and residents, as reflected in the annual financial statements of the Municipality;
- e) Set an improved target for debt collection, in line with acceptable accounting ratios and the abilities of the Municipal Manager;
- f) Approve a reporting framework for credit control and debt collection;
- g) Consider and approve by-laws to give effect to Council's policy;
- h) Monitor the performance of the Executive Committee and the Municipal Manager regarding credit control and debt collection;
- i) Revise the budget should Council's targets for credit control and debt collection not be met;
- j) Take disciplinary action against officials who do not execute Council policies and by-laws;
- k) Approve a list of attorneys / in-house counsel that will act for Council in all legal matters relating to debt collection;
- l) Delegate the required authorities to monitor and execute the credit control and debt collection policy to the Executive Committee and the Municipal Manager respectively;
- m) Approve an appropriate staff structure for credit control and debt collection;
- n) Appoint debt collection agents to assist the Municipal Manager in the execution of his/her duties, if required, and
- o) Provide funds for the training of staff.

### **5.2 The duties and functions of the Executive Committee are to:**

- a) Ensure that the Council's budget, cash flow and targets for the debt collection are met and executed in terms of the policy and relevant by-laws;
- b) Monitor the performance of the Municipal Manager in implementing Council's policy and by-laws;
- c) Review and evaluate the policy and by-laws in order to improve the efficiency of the Council's credit control and debt collection procedures, mechanisms and processes; and
- d) Report to the Council.

**5.3 The duties and functions of the Municipal Manager are to:**

- a) Implement good customer care management;
- b) Implement the Council's credit control and debt collection policy;
- c) Install and maintain an appropriate accounting system;
- d) Bill consumers appropriately;
- e) Demand payment on due date;
- f) Raise penalties on defaulter's accounts;
- g) Ensure that appropriate payment is received;
- h) Collect outstanding debt;
- i) Implement "Best Practices" procedures
- j) Provide different payment methods;
- k) Determine customer care, credit control and debt collection measures
- l) Determine work procedures for public relations, arrangements, disconnections of services, summonses, attachments of assets, sales in execution, writing off of bad debts, sundry debtors and legal processes;
- m) Appoint firm/s of attorneys to complete the legal process (i.e. attachments and sale in execution of assets, emolument attachment orders etc.);
- n) Set performance targets for staff;
- o) Appoint staff to execute Council's policy and By-laws in accordance with Council's staff policy;
- p) Delegate certain functions to Heads of departments;
- q) Determine control procedures;
- r) Monitor contracts with Service Providers in connection with credit control and debt collection; and
- s) Report to the Executive Committee and Council.

**5.4 The duties and functions of communities, ratepayers and residents are to:**

- a) Fulfil certain responsibilities, as brought about by the privilege to use and enjoy public facilities and municipal services;
- b) Pay service fees; rates on property and other taxes, levies and duties imposed by the Municipality;
- c) Observe the mechanisms and processes of the Municipality in exercising their rights;
- d) Allow municipal officials reasonable access to their property to execute municipal functions;
- e) Comply with the by-laws and other legislation of the Municipality;
- f) Refrain from tampering with municipal services and property.

**5.5 Duties and Functions of Ward Councillors and Political Parties are to:**

- a) Hold regular ward meetings;
- b) Adhere to and convey Council's policies to residents and ratepayers; and
- c) Adhere to Council's Code of Conduct for Councillors.

**6. CUSTOMER CARE POLICY****6.1 Customer Feedback**

- 6.1.1 The Municipality will, within its financial and administrative capacity, conduct an annual process of compiling its budget, which will include revised targets for credit control.
- 6.1.2 Council's Customer Care, Credit Control and Debt Collection Policy, will be available in English only and will be made available by general publication and on specific request, and will also be available at Council's offices for perusal.
- 6.1.3 Council will endeavour to distribute a regular newsletter, which will give prominence to customer care and debt issues.
- 6.1.4 Ward Councillors will be required to hold regular ward meetings, at which customer care and debt issues will be given prominence.
- 6.1.5 The press will be encouraged to give prominence to Council's Customer Care and Debt issues, and will be invited to Council meetings where these are discussed.

**6.2 Handling of Complaints****6.2.1 Council aims to establish:**

- a) A customer care unit;
- b) A centralised complaints database to enhance co-ordination of complaints, their speedy resolution and effective communication with customers;
- c) Appropriate training for officials dealing with the public to enhance communications and service delivery;
- d) Establish monitoring mechanism to ascertain that queries are resolved within timeframes as set by service standard chart; and
- e) A communication mechanism to give Council feedback on service, debt and other issues of concern.

### **6.3 Metering**

6.3.1 The Alfred Duma Local Municipality reserves the right to supply electricity to any consumer by means of a pre-paid or conventional meter, whichever is deemed more economical.

6.3.2 The Municipality or its authorised agent must in respect of municipal services that can be metered, endeavour to meter all customer connections.

6.3.3 All meters will be read on a monthly basis. If a service is not measured, the Municipality or its authorised agent may, determine the amount due and payable by a customer for municipal services supplied to him/her in the following manner:

- a) Shared consumption; or if not possible
- b) Estimated / average consumption.

The consumer has the responsibility to provide access to the metering equipment to the municipal official or its agent in order to obtain the meter readings for billing purposes.

6.3.4 Customers are entitled to request verification of meter readings and accuracy, but may be held liable for the cost thereof as per Council's approved tariff of charges. "Meter estimation is calculated using six months prior data in the following way:

Total days for the prior six months is totalled (using the applicable actual reading dates) as well as the total consumption for the prior six months. The total consumption is then divided by the total days to obtain a daily average.

The daily average is multiplied by the applicable billing days in the current period to obtain the meter estimated consumption"

6.3.5 Customers will be informed of meter replacements as and when needed.

6.3.6 If a service is metered but it cannot be read due to financial and human resource constraints or circumstances out of the control of the Municipality or its authorised agent, and the customer is charged for an estimated consumption, the account following the reading of the metered consumption must articulate the difference between the actual consumption and the estimated consumption, and the resulting credit or debit adjustment. If the meter reading problem cannot be resolved, the credit electrical meter will be replaced with a pre-paid electricity meter.

### **6.4 Accounts and Billing**

6.4.1 The customer may receive more than one account for different municipal services if they are accounted for separately.

6.4.2 Accounts will be produced in accordance with the meter reading cycle and due dates are linked to the statement date.

- 6.4.3 Accounts will be rendered monthly to customers at the address last recorded with the Municipality or its authorised agent.
- 6.4.4 Failure to receive or accept an account does not relieve a customer of the obligation to pay any amount due and payable (i.e. it remains the client's responsibility to ascertain any amounts payable).
- 6.4.5 Accounts must be paid on or before last day of the month.
- 6.4.6 Where an account is not settled in full, any lesser amount tendered to and accepted shall not be deemed to be in final settlement of such an account.
- 6.4.7 Where any payment made to the Municipality or its authorised agent by negotiable instrument is later dishonoured by the bank, the Municipality or its authorised agent:
- Will recover the average bank charges incurred relating to dishonoured negotiable instruments against the account of the customer; and
  - Shall regard such an event as default on payment, and services will be disconnected immediately.
  - No further cheque payments will be accepted after a cheque is returned by the bank for whatever reason.
  - Cost in terms of tariff of charges will be recovered from the cashier employed by the Alfred Duma Local Municipality if he or she accepts a post-dated/unsigned or altered cheque.
- 6.4.8 The Municipality or its authorised agent must, if administratively possible, issue a duplicate account to a customer on request.
- 6.4.9 Accounts must contain at least the following:
- The services rendered
  - The consumption of metered services or average, or estimated consumption.
  - The applicable charges
  - The amount due
  - property rates payable
  - Surcharges
  - Value Added Tax
  - Any rebates
  - The adjustments, if any, to metered consumption that has been previously estimated.
  - The arrears
  - The interest payable on arrears
  - The final date of payment
  - The methods, places and approved agents where payment may be made.
  - Administration charges
  - Payments received.
  - Period stipulated in the account.
  - Any subsidies.

6.4.10 Every refuse tariff will be consolidated with the respective rates account per erf, and provided to owner of property, not tenants – CONSOLIDATED ACCOUNTS WILL NOT BE UNCONSOLIDATED.

6.4.11 New services and rates accounts will only be entered into with the owner of the property where the services is required, and the installation of a pre-paid electricity meter is compulsory.

6.4.12 In the event of a spouse passing on, the remaining spouse will not be regarded as a new owner for the purpose of paying connection fees and converting to pre-paid electricity with the provision that spouse inherit the property or is the co-registered owner.

6.4.13 The Municipality may –

- a) Consolidate any separate accounts of a person liable for payments to the Municipality;
- b) Transfer a payment by such a person against any account of that person; and
- c) Implement any of the debt collection and credit control measures provided for in terms of the Local Government: Municipal Systems Act 32 of 2000 in relation to any arrears on any of the accounts of such a person.

## **6.5 Enquiries, Appeals and Service Complaints**

6.5.1 If a customer believes that his/her account is inaccurate, he/she can lodge a query with the Municipality for investigation of this account in the prescribed format, as set by the Municipality. Where necessary the relevant alterations will be effected within 30 days.

6.5.2 A query or complaint must be accompanied by the payment of the average of the last three months' accounts where history of the account is available or an estimated amount provided by the Municipality before payment due date until the matter is resolved.

6.5.3 The Municipality or its authorised agent will:

- a) Investigate or cause the query or complaint to be investigated;
- b) And, must inform the customer in writing, sms or telephonically of its finding within one month after the query or complaint was registered.

6.5.4 Failure to make such agreed interim payment would make the customer liable for disconnection or other normal credit control procedures, together with the applicable fees and converting to pre-paid electricity at the owners cost.

6.5.5 A customer may appeal against a finding of the Municipality or its authorised agent in terms of section 6.5.1 in writing, on the prescribed form.

6.5.6 An appeal and request in terms of subsection 6.5.5 must be made in writing and lodged with the Municipality within (twenty-one) 21 days after the customer became aware of such finding referred to in section and must:

- a) Set out the reasons for the appeal; and
- b) Be accompanied by any security determined for the testing of a measuring device, if applicable.

## 6.6 Payment Facilities and Methods

6.6.1 The Municipality or its authorised agent will operate and maintain suitable pay-point facilities, and these facilities will be accessible to all users for payment of accounts and pre-paid electricity purchases.

6.6.2 The Municipality will, at its discretion, allocate a payment made by a debtor of an amount less than the total amount due in order to service debts. A debtor may not specify that a payment is for a specific portion or service of the account. The payment may be allocated to any hand-over account for legal collection and the current account disconnected for arrears.

PRIORITY NO.	STATUS	SERVICE
1	Arrears	All other Municipal charges including interest, administration charges and penalties.
2	Arrears	Additional Deposits
3	Arrears	Sundry Charges
4	Arrears	Housing Charges
5	Arrears	Refuse Charges
6	Arrears	Rates
7	Arrears	Electricity Charges
8	Current	All other Municipal charges including interest, administration charges and penalties.
9	Current	Additional Deposits
10	Current	Sundry Charges
11	Current	Housing Charges
12	Current	Refuse Charges
13	Current	Rates
14	Current	Electricity Charges
15	Vat	Will be allocated in terms of the Vat Act of 1991

6.6.3 The Municipality may, with the consent of a customer, approach an employer to secure a debit or stop order arrangement.

- 6.6.4 The customer will acknowledge, in the customer agreements that the use of customer agents in the transmission of payments to the Municipality is at the risk and cost of the customer. This is also applicable for the transfer time of the payment, and payment will only reflect for credit control purposes once credited and receipted to the specified debtors account.

## **6.7 Performance Targets**

- 6.7.1 Council will create a mechanism wherein these targets are assessed. Council's performance is evaluated and remedial steps taken.

### **6.7.2 Income Collection Targets**

Council must create targets that include reduction in present monthly increase in debt, in line with performance agreements determined by Council.

### **6.7.3 Customer Service Targets**

Council must create targets that would include:

- a) Response time to customer queries.
- b) Date of first account delivery to new customers.
- c) Reconnection time elapse.
- d) Meter reading cycle.

### **6.7.4 Administrative Performance**

Council is to create targets that will include:

- a) Cost efficiency of debt collection;
- b) Query and appeal periods; and
- c) Enforcement mechanism ratios.

## **7. CREDIT CONTROL POLICY**

### **7.1 Service Application & Connection**

- a) All owners of properties will be required to sign an agreement governing the supply and cost of municipal services. The Municipality will progressively consolidate all service accounts to the owners account. Pre-Paid Electricity meters will be installed for all new connections.
- b) All identified Government properties will be required to enter into a service contract for rates and refuse. The contract for rates and services will only be entered into in the name of the registered owner by the identified authorised official.

#### 7.1.1 Installation of pre-paid electricity meters if electricity supplied

- a) That any transfer of property to new owners be subject to an installation of a pre-paid electricity meter (cost paid by the owner). That any defaulter on the disconnection list, be equipped with a pre-paid electricity meter (cost paid by the owner).
- b) Any credit electricity meter, where access to read the meter is restricted by the owner will be replaced by a pre-paid electricity meter (cost to be paid by the owner).
- c) Faulty credit meters will be replaced with the pre-paid wherever practical (cost to be borne by council).
- d) Credit meter customers (residential and commercial) using less than 200 kWh per month be replaced with a pre-paid meter at the discretion of the Department of Infrastructure and Services (cost to be borne by Council).
- e) Bulk replacement of credit meters is initiated to areas where it is deemed impractical to continue reading these meters due to the high concentration of pre-paid meters in existence (cost to be borne by council).
- f) Installation of Smart Metering will be implemented by Council. All electricity meters to be converted to Smart Metering after a feasibility study is done (cost to be borne by Council).
- g) The electricity meters of domestic customers in Alfred Duma Local Municipality jurisdiction area using in excess of 1 000 kWh per month (based on a 12-month average) be replaced with smart meters and be placed on a Time of Use tariff (cost to be borne by Council).

7.1.2 Prior to the signing of these agreements, customers will be entitled to receive the policy document of the Council on a request at a cost determined by Council.

7.1.3 On signing of the agreement, customers will receive a copy of the agreement for their records.

7.1.4 All identified Government properties will be required to enter into a service contract for rates and refuse. The contract for rates and services will only be entered into under the name of the registered owner identified by the authorised official.

7.1.5 In the agreement customers will acknowledge liability for costs of collection, interest, penalties and any other cost contained in the by-laws to collect outstanding monies, in the event of late payment.

7.1.6 Existing customer will be required to sign new agreements as determined by the Municipal Manager from time to time to update the Municipal records.

7.1.7 With respect to residential registrations, the owner of the property must produce the following documents:

- a) Certified copy of identity document or passport
- b) A letter from the transferring attorney confirming ownership or copy of the Title Deed and if not available an extract from the Deeds Office be attached to the contract.
- c) Rateable details or rate number of the property if available.

7.1.8 With respect to commercial registrations the following documents must be produced:

- a) The Certificate of Registration or Incorporation of the Company, CC, Trust, or Partnership. In addition, in the case of company, the CM29;
- b) Certified copy of the identity document or passport of all of the directors, members, trustees or owners in the case of a sole proprietor, who would open an account.
- c) Letters of authority in the case of a partnership or sole proprietor.
- d) The Council reserves the right to request personal cashback deposit from one or more of the Directors / Members of a company or CC whenever it deems this to be appropriate.
- e) Proof that the business is duly registered as a business levy payer or is exempted there from.
- f) VAT registration numbers if applicable.
- g) Proof of ownership of property.

7.1.9 All commercial and domestic new connections will be in the owner's name only.

## **7.2 Customer Screening and Securities/Deposits**

7.2.1 All applicants will be checked for credit-worthiness. This will include checking information from banks, credit bureaus, local authorities, trade creditors, employers and references supplied by consumers.

7.2.2 Security deposits in cash acceptable to the Municipality will be required, and may vary according to the risk. The average cry for new connections will be determined on application for services to be rendered.

7.2.3 Deposits and level of services can vary according to the credit-worthiness or legal category of the applicant.

7.2.4 The Municipality can increase deposits at any time and at the sole discretion of the Municipality not to be more than two and half times the monetary value of the most recent consolidated accounts for services of the premises for which an application is made.

7.2.5 An amount deposited with the Municipality shall not be regarded as being in payment or part payment of an account due for services rendered.

- 7.2.6 No interest shall be payable by the Municipality or its authorised agent on any deposit held.
- 7.2.7 On the termination of the agreement the amount of the deposit less any outstanding amount due to the Municipality will be refunded to the consumer on application, meeting all requirements. A deposit shall be forfeited to the Municipality if the customer has not claimed it within 12 (twelve) months of termination of agreement.
- 7.3 Consolidated Accounts**
- Customers will receive an accurate bill from the Municipality. Such bill will consolidate all service costs for that property, and the Municipality may credit all payments received from such a person to any service and order of preference as determined by Council from time to time.
- 7.4 Arrears**
- The Municipality shall have the right to restrict or discontinue the supply of services or to implement any other debt collection action necessary due to late or non-payment of accounts, relating to any consumer, owner or property. All accounts which are in arrears below R500.00 will be notified to make the necessary payment, failure to make payment will result in the electricity supply being blocked or restricted. If the customer further neglects to payment, the electricity supply will be disconnected.
- 7.4.1 Electricity supply will be blocked, restricted or disconnected at the discretion of the Municipality for any arrears with any service attached to the lot or erf exceeding R500.00 or as decided by the Credit Control Action Committee from time to time as deemed necessary.
- 7.4.2 The Municipality reserves the right to block or withheld a percentage from purchase of electricity on the pre-payment system if the account linked to the prepaid meter is not paid by the due date. The percentage withheld will be transferred to the said account.
- 7.4.3 Interest charged – refer to paragraph 8.1.2.
- 7.4.4 Any dispute, concerning any amount charged between the Municipality and the person referred to, will result in the same procedures being applied as indicated in paragraph 6.5.
- 7.4.5 A staff member of the Municipality may not be in arrears to the Municipality for rates and service charges for a period longer than three (3) months, and the Municipality may deduct any outstanding amounts from a staff member's salary after this period.

7.4.6 A Councillor may not be in arrears for rates and service charges for a period longer than three (3) months.

7.4.7 Municipal staff and Councillors, excluding employees hired under job creation program, are not entitled to benefit from the Indigent Support subsidy whilst employed and if it is discovered that a staff member or councillor has benefitted from the Indigent Support subsidy after the date of their employment with the municipality, this will result in disciplinary action being taken against the relevant staff member or councillor.

## **7.5 Incentives for Prompt Payments**

7.5.1 The Municipal Council may institute incentive schemes to encourage prompt payment.

7.5.2 Such incentive schemes, if introduced, will be reflected in annual budgets as additional expenditure.

## **7.6 Right to Access Premises**

7.6.1 The owner and /or occupier of property is to allow an authorised representative of the Municipality access at all reasonable hours to the property in order to read, inspect, install or repair any meter or service connection for reticulation, or to disconnect, stop or restrict, or reconnect, the provision of any service.

7.6.2 The owner is responsible for the cost of relocating the existing electricity meter if satisfactory access is not possible.

7.6.3 If a person fails to comply with 7.6.1 the Municipality or its authorised representative may:

- a) By written notice require such person to restore access at his/her own expense within a specified period.
- b) If it is the opinion that the situation is a matter of urgency, without prior notice restore access and recover the cost from such person.
- c) All credit electricity meters without access will be replaced by a pre-paid electricity meter at the cost of the owner.

## **7.7 Different Categories of Debtors**

Customers will be categorised according to certain classifications based on the type of entity, use of services, levels of services, infrastructure requirements and applicable tariffs and risk levels.

## **8. DEBT COLLECTION POLICY**

### **8.1 Responsibility for amounts**

In terms of Section 118(3) of the Systems Act, an amount due for municipal service fees, surcharge on fees, property rates and other municipal taxes, Levies and duties is charge upon the property in connection with which the amount is owing and enjoys preference over mortgage bond registered against the property. Accordingly –

- a) The owner of such property shall be liable for charges incurred in connection with such property and all municipal debts must be paid by the owner of such property without prejudice to any claim or right of recovery which the Municipality may have against another person.

### **8.2 Enforcement Mechanisms**

#### **8.2.1 Interruption of Service**

- a) Customers who are in arrears with their municipal account and who have not made arrangements with Council will have their supply of electricity and other municipal services suspended or disconnected on a fourteen (14) days' notice. A pre-paid electricity meter will be installed at the owner's expense based on the tariffs as set by Council at the beginning of the financial year.
- b) Council reserves the right to deny, restrict, or block the sale of electricity to customers who are in arrears with their rates or other municipal charges.
- c) Upon payment of arrears, or the conclusion of acceptable arrangements for term payment, the service will be reconnected as soon as possible –
  - i. If paid before 13:00 reconnection will be on the same day (noting emergency power failures take preference).
  - ii. If paid after 13:00 reconnection will be on the next working day (noting emergency power failures take reference).
  - iii. If the electricity service (cable or meter) has been removed, it will be treated as a new connection, and only be reconnected as soon as possible when all outstanding debt is paid.
  - iv. The Credit Control Manager has the right to evaluate and reconnect electricity supply outside of the above prescribed times in case of emergency as and when required, with an after hour reconnection fee applicable.
- d) The cost of the restriction or disconnection, and the reconnection, will be determined by tariffs approved by Council, and will be payable by the customer.
- e) The deposit of any defaulter will be adjusted to be brought into line with relevant policies.

- f) If the tenant of any property is in arrears for sixty (60) days or more with their accounts, the electricity and refuse account will be consolidated with the owner's account and the cable or meter (conventional or pre-paid) will be removed. Reconnection will only take place once all arrears have been settled and a new contract entered into by the owner. The reinstating of the service will be added to the waiting list for services.

#### 8.2.2 Interest and Penalties

Interest will be charged in terms of the Local Government: Municipal Systems Act section 75A(b) and Local Government: Municipal Finance Management Act sections 64(2)(g) and 97(1)(e) on all accounts not paid by the due date in accordance with applicable legislation, and Council's yearly Budget Resolution. Penalties will be charged on handed over accounts in accordance with Council's yearly Budget Resolution.

#### 8.2.3 Personal Contact

- a) The costs of telephonic contact by (fax, e-mail, SMS or otherwise) whichever is deemed most cost effective, will be recovered from the recipient of such notice.
- b) Approved agents' costs when collecting on behalf of Council calling on clients will be recovered from each debtor.
- c) Council will endeavour, within the constraints of affordability, to make personal or telephonic contact with all arrear debtors to encourage their payment, and inform them of their arrears state, and their rights (if any) to conclude arrangements or to indigence subsidies, other related matters and will provide information on how and where to access such arrangements or subsidies. It remains the responsibility of the customer to provide and update contact details.
- d) Such contact is not a right for debtors to enjoy and disconnection of services and other collection proceedings will continue in the absence of such contact for whatever reason.
- e) All cost incurred for recovery of arrear debt is payable immediately by the customer/owner, before reconnection takes place.

#### 8.2.4 Legal Process /Use of Attorneys / Use of Credit Bureaus

Council may, when a debtor is sixty (60) days in arrears, commence legal process against that debtor. This process may involve final demands, summonses, court trials, warrant of execution judgements, garnishee orders and/or sales in execution of movable and immovable property. Government Properties will only be handed over to Legal if all Inter Governmental Relations (IGR) process have failed.

- a) Council will exercise strict control over this process, to ensure the accuracy and legality within it, and will require regular reports on progress from outside parties, be they attorneys or any other collection agents appointed by Council or the in-house legal section.

- b) Council will establish procedures and codes of conduct with these outside parties collecting arrear debt on behalf of Council.
- c) Garnishee orders, in the case of employed debtors, are preferred to sale in execution, but both are part of Council's system of debt collection procedures.
- d) All steps in the credit control procedure will be recorded for Council's records and for the information of the debtor.
- e) All costs of this process are for the account of the debtor.
- f) Individual debtor accounts are protected and are not subject of public information. However, Council may release debtor information to credit bureaus. This release will be in writing or by electronic means.
- g) Council may consider the cost effectiveness of the legal process, and will receive reports on relevant matters, including cost effectiveness.
- h) Council may consider the use of agents, and innovative debt collection methods and products. Cost effectiveness, the willingness of agents to work under appropriate codes of conduct and the success of such agents and products will be part of the agreement Council might conclude with such agents or service providers; and will be closely monitored by Council.
- i) Customers will be informed of the powers and duties of such agents or service providers and their responsibilities including their responsibility to observe agreed codes of conduct.
- j) Any agreement concluded with an agent, product vendor or service provider, shall include a clause whereby breaches of the code of conduct by the agent or vendor constitute a breach of contract.
- k) On default by a owner, the tenant will be the debtor of last resort.

#### 8.2.5 Estate Accounts Collection

- a) The accounts of debtors who are insolvent, under administration or deceased are dealt with according to normal legal practices by collection staff of the municipality. Unsuccessful claims must be submitted to the Mayor, FPC, EXCO and Council for approval to be written off.
- b) Estates without formalised legal status: In numerous cases the head of a household has died without leaving a will indicating to whom ownership of the family residence is to be transferred upon the event of his/her death or the owner of the property has abandoned his/her family to fend for themselves. As these exceptions are not provided for in the normal legal practice, the following process will be followed in such cases:
  - i. The remaining family must report the situation to the Municipality's collection office, who will require the relevant documentation to be obtained by the family e.g. a death certificate, and an order of the local Magistrate or Master of the High Court allocating right of ownership to someone of the surviving family in the case of a

deceased estate; or an order of the local Magistrate allocating right of ownership to someone in the abandoned family.

- c) In all of these cases, extension for the payment of the arrears as at the date of notification will be given by the debt collectors of the Finance department, disconnected electricity will be reconnected and the remaining family will be expected to pay all amounts levied on monthly current accounts in excess of the amount of the extension until such time as the matter has been finalised. This will prevent any further service restrictions or collection actions at the residence whilst the family are in the process of legalising ownership of the property.
- d) As soon as ownership has been officially allocated by the Magistrate or Master of the High Court, the documentation must be presented to the Municipality's collection office, who will then change the name of the account to that of the new owner. The new owner will also be encouraged to make an arrangement for the payment of the arrears to prevent credit control and collection action from being taken by the Municipality. *Alternatively*, if the family qualifies to be registered for assistance in terms of the municipality's Indigent Policy, they may apply for that, and after registration their arrears shall be dealt with in terms of that policy.
- e) Unsuccessful claims must be submitted to the Mayor, FPC, EXCO and Council for approval to be written off.
- f) This process is intended to accommodate families and child headed households who may also qualify to be registered in terms of the Council's Indigent Policy.

### 8.3 Cost of Collection

All costs of legal processes, including interest, penalties, service discontinuation costs and legal costs (charged at point of hand over through legal processes) associated with credit control are for the account of the debtor and should reflect at least the average cost of the particular action.

### 8.4 Rates Clearance

On the sale of property in the municipal jurisdiction, Council shall withhold a rates clearance certificate until all rates and service charges are paid in full and final settlement of the relevant account as requested for the rates clearance certificate. The conveyancer, seller, and purchaser must acknowledge in writing that the seller and purchaser were informed of any arrears prior to the two years applicable in terms of section 118 of the Systems Act, and indicate full contact

details and identity numbers for the seller and purchaser. **Arrears will be for the account of the last registered owner.**

Subject to Sections 118(1) and (1A) of the Act, the following shall apply to the issue of a Municipal Clearance Certificate for the purpose of effecting transfer of a property to a new owner.

#### 8.4.1. Assessments

Application shall be made by the Conveyancing Attorney, in the prescribed format by providing the following information in respect of the property in question:

- a) Present owner of the property
- b) Property description
- c) Physical address
- d) Rates Account No's
- e) Electricity Account No's. (Or electricity meter no's.)
- f) Purchasers details; identity numbers and postal address and purchasers *domicilium citandi et executandi*;
- g) With respect to Vacant Land, an Affidavit from the seller that the property does not have an electricity supply connection and an undertaking from the purchaser that should an electricity supply connection be discovered on the property and such account is in arrears, then the purchaser accepts liability for such arrears.
- h) Copies of all the accounts must accompany the application. If the relevant information is not provided, the application will be returned to the conveyancer.

8.4.2. Every effort will be made to issue an assessment within five working days of receipt of application. Certain delays may be experienced in respect of:

- a) New sub divisions
- b) Pending building plans
- c) Special investigations.

With respect to the aforesaid, the following is required to be submitted to the consultant valuers

- a) A copy of the survey diagrams/general plans
- b) A copy of the sale agreements
- c) A copy of the relevant proclamation notices
- d) Seller contact details; and
- e) Building plans on request.

Conveyancers will be notified of possible delays

8.4.3. The assessment shall include the following:

- a) Rates and refuse for three months
- b) Electricity - Actual balance outstanding at date of assessment being approved less any deposit on hand.
- c) Other - Actual balance outstanding at date of application.
- d) Municipal Certificate Fee- As per the prescribed tariff.

#### 8.5 Arrangements for Settlement

8.5.1 If a customer cannot pay his/her outstanding account in full with the municipality, he/she may enter into an extended term of payment with the municipality after the following is done:

- a) Signing of surety/arrangement form,
- b) Signing of an acknowledgement of debt form,

- c) Submitting a copy of the owner/s I.D/s, and/or executorship letter if owner is deceased.
- d) Submitting proof of income

8.5.2 He/she must pay the current portion of the account in full and a period be set for the outstanding amount to be paid as may be determine by the Accounting Officer or the Chief Financial Officer.

8.5.3 Any arrangement for payment of arrears in terms of this Policy must be negotiated within the following framework or as per the provision of clause 6.4.2:

**a) Private Households:**

- An amount equal to 10% of the total outstanding debt shall be payable upfront as deposit.
- The period of the arrangement shall be determined by the Accounting Officer or the Chief Financial Officer, however the debtor shall not be allowed to redeem arrears over a period in excess of 12 months.
- In cases where the debtor indicates that the calculated payment is not affordable, the terms of arrangement shall be at the Accounting Officer's discretion or his authorised representative.
- Once the debtor has entered into an arrangement with the municipality in terms of this policy, all credit control actions, including legal processes, will be suspended until the debt is settled in full. The debtor will also bear any cost incurred prior to entering into an arrangement with the municipality.

**b) Businesses**

- Business director(s) must motivate in writing to the Accounting Officer as to why he/she should consider a payment arrangement.
- The Accounting Officer reserves the right to accept or reject any proposed payment arrangement.
- In applying his/her mind on the proposed payment arrangement the Municipal Manager will consider the nature of the business, financial & non-financial information and any other information deemed relevant at that time.
- The Accounting Officer may consult the finance portfolio committee before he/she make the decision.
- The terms of arrangement shall be at the Accounting Officer's discretion or his authorised representative.
- Once the debtor has entered into an arrangement with the municipality in terms of this policy, all credit control actions, including legal processes, will be suspended until the debt is settled in full. The debtor will also bear any cost incurred prior to entering into an arrangement with the municipality.

8.5.4 If the debtor breaches any material term of an arrangement, the total outstanding balance including interest raised on such account, shall immediately become due and payable to the municipality and any applicable action to recover the debt in terms of this policy shall be applied immediately.

- 8.4.4. The municipality reserve the right to:
- a) Raise the security deposit requirement of such customer who enter into an arrangement in terms of clause 7.2
  - b) Demand that suretyship be completed.

8.5.5 No arrangement will made for a debtor with electricity consumption arrears, unless he/she agrees to the conversion to prepayment electricity meter, if and when implemented the cost of which, and the total arrears, will be paid off, as Council deems appropriate, either by:

- a) Adding the debt to the arrears bill and repaying it in full or over arrangement period; or
- b) Adding it as a surcharge to the prepaid electricity cost, repaying it with each purchase of electricity until the debt is settled.

## **8.6 Abandonment of Claims**

8.6.1 The Municipal Manager must ensure that all cost effective avenues are utilised to collect the Municipality's debt.

8.6.2 There are some circumstances that allow for the valid termination of debt collection procedures:

- a) The insolvency of the debtor, whose estate has insufficient funds;
- b) A balance being too small to recover, for economic reasons considering the cost of recovery;
- c) Where Council deems that a customer or group of customers are unable to pay for services rendered;
- d) Prescription of debt;
- e) When a debtor with an inactive account cannot be traced;
- f) All reasonable notifications and legal actions to recover the outstanding amount have been exhausted.
- g) The amount outstanding is the residue after payment of dividend in the rand from an insolvent estate;
- h) It is impossible to prove the debt outstanding; or
- i) The outstanding amount cannot be recovered due to an administrative error by Council.

8.6.3 The Municipality will maintain audit trails in such an instance, and document the reasons for the abandonment in respect of the debt. The schedules setting out particulars of the debt and the reasons for abandonment or write off, together with a written request to approve it to be written off, must be presented to the Chief Financial Officer for submission to the Mayor, FPC, EXCO and Council for approval.

## **9. CUSTOMER ASSISTANCE PROGRAMMES:**

### **9.1 THE INDIGENT POLICY WILL BE REFERRED TO AS A SEPARATE POLICY FROM 2016/2017.**

#### **9.2 Rate Rebates**

9.2.1 Property used exclusively for residential purposes may qualify for a rebated rate determined annually by Council.

9.2.2 A rate rebate may be granted according to certain qualifying criteria to social pensioners or the receiver of a state disability grant and/or any category of customer, as determined by Council from time to time.

#### **9.3 Rates by Instalments**

Customers will pay the property rates and refuse account monthly, over eleven (11) months at no interest, on the condition that there are no rates outstanding in respect of the previous period and that the rates are paid in full prior to the next rates cycle.

#### **9.4 Indigent Subsidy**

The relief conditions for rates and services for Indigent Customers will be stipulated in the policy named the Indigent Policy of the Alfred Duma Local Municipality.

#### **9.5 Relief in certain circumstances**

Council may approve during the yearly budget process relieve for rates and refuse for owners who are medically boarded, pensioners and disabled persons and child headed households on application.

## **10. REPORTING**

10.1 The Chief Financial Officer shall report monthly to the Municipal Manager in a suitable format to enable the Municipal Manager to report to Council. This report shall contain particulars on:

- a) Cash flow information for capital and operating accounts, and the combined situation, showing Council's actual performance against its cash flow budgets.
- b) Cash collection statistics, showing high level debt recovery information (numbers of customers; enquires; default arrangements; growth or reduction of arrear debtors; ideally divided into wards, business (commerce and industry) domestic, state, institutional and other such divisions.
- c) Council's ongoing income and expenditure statements, comparing both billed income and cash receipt income, against ongoing expenditure in both the capital and operating accounts.

- 10.2 If in the opinion of the Chief Financial Officer, Council will not achieve cash receipt income equivalent of the income projected in the annual budget as approved by Council, the Chief Financial Officer will report this with motivation to the Municipal Manager who will, if he agrees with the Chief Financial Officer, immediately move for a revision of the budget according to realistically realisable income levels.

## **11. PERFORMANCE EVALUATION**

Refer – Performance Targets, paragraph 6.7.

## **12. TERMINATION OF SERVICE OR RESTRICTION**

Refer – Interruption of services, paragraph 8.1.1.

## **13. UNAUTHORISED CONSUMPTION / TAMPERING / THEFT OF SERVICES**

- 13.1 Any person (natural or juristic) found to be illegally connected to municipal services, tampering with meters, the reticulation network or any other supply equipment, or committing any unauthorised actions associated with the supply of municipal services, as well as theft and damage to Council property/infrastructure, will be prosecuted and/or held liable for penalties as contained in the Municipal by-laws.
- 13.2 Council will immediately terminate the supply of services to such a customer should such conduct as outlined above be detected.
- 13.3 The total bill owing, including: penalties, assessment of unauthorised consumption and discontinuation and reconnection fees, and increased deposits as determined by Council if applicable, becomes due and payable before any reconnection may be approved.
- (a) Household Consumers who are currently owing Tampering charges may enter into a payment arrangement with the Municipality. The arrangement criteria for Tampering will be as follows:
    - (i) 30% down payment as deposit and balance to be paid over 6 months period or less including current account,
    - (ii) If a consumer indicates that the above payment arrangement is not affordable it will be referred to the Accounting Officer to apply his/her discretion taking into account the consumer's financial status.
  - (b) Other type of consumers must motivate in writing to the Accounting Officer to enter into payment arrangements for Tampering charges. The Accounting Officer reserves the right to accept or reject any proposed payment arrangement.

- 13.4 Council will maintain monitoring systems and teams to detect and survey customers who are undertaking such illegal actions.
- 13.5 Council may distinguish in its penalties between cases of vandalism and/or cases of theft.
- a) Council reserves the rights to lay charges and/or to take legal action against both vandals and thieves;
  - b) Any person failing to provide information or providing false information to the Municipality may face immediate disconnection.
- 13.6 The owner of the property remains liable and responsible for all instances of unauthorised reconnections and disconnections, tampering, damage or theft of Municipal Infrastructure, and services installed in the property. Further, the onus is upon the owner to ensure that tenants on the premises or the property refrain from such acts.
- 13.7 Unauthorised reconnection of/or tampering with a service supply is prohibited and shall constitute a criminal offence that will result in legal action taken against the owner and disconnection of municipal services.

#### **14. IMPAIRMENT OF DEBTORS (PROVISION FOR DOUBTFUL DEBTORS)**

- 14.1 Accounts receivables are stated in the Annual Financial Statements at the value of billing to consumers/ratepayers, less deduction for discounts given of rebates granted less a provision of doubtful debts.

Provision for doubtful debts is made, based on review of all accounts outstanding for a period that exceed 30 days at the financial year end. Contributions to the provision are calculated on a specific debt basis as at the reporting date of the year under review. The contribution to Impairment of debtors (provision for doubtful debt) is recognized as an expense in the statement of financial performance. When under recovery occurs during the financial year an additional contribution for impairment is made at year end.

- a) Consumer debtors (accounts receivable), and other debtors are stated at cost, less a provision for bad debt.  
Significant financial difficulties of the debtor and default or delinquency in payments and all debt outstanding are considered indicators to determine that debtors are impaired.
- b) In terms with paragraph 62 of GRAP 104, *financial instruments*:  
An entity first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant.

- c) Consumer debtors are evaluated at the end of each reporting date and impaired as follows:

Management criteria and assumptions for the calculation of debt impairment:

- Criteria to follow
    - Original interest rate is used (to work out discount rate).
    - 30 days payment terms.
    - Analysis of accounts per category (billing vs possible time it will take for the amount to be fully collected).
    - The total balance as disclosed is collectable in the next financial year.
  - Methodology followed for the calculation of debt impairment.
    - To look at the billing vs payment for one financial year per category of consumer debtors.
    - To determine the time it takes to collect a month's billed amount.
- Per category (in %)

When identifying irrecoverable debts, special focus is applied to the following categories of debtors, although debtor profiling is done for all outstanding debts for a period exceeding 30 days at the reporting date.

#### **14.2 Sundry Debtors**

Sundry debtors may be assessed individually like any other debt for impairment, to establish whether any evidence exist that they are not recoverable.

#### **14.3 Sale of immovable property**

To be dealt with in accordance with the terms of each Sale Agreement.

### **15. BAD DEBTS**

#### **15.1 Introduction**

In terms of Section 97 (1)(d)(ii) of the Local Government: Municipal Systems Act, Act 32 of 2000 as amended and the Local Government Municipal Finance Management Act Section 64(f) the following policy on writing off the bad debts as irrecoverable will apply.

#### **15.2 Preamble**

The Municipal Finance Management Act (MFMA) Act 56 of 2003, aims to modernize budget and Financial Management Practices in municipality in order to maximize the capacity of the municipality's to deliver services to all residents, customers and users. It also give affect to the principles of transparency as required by Section 215 and 216 of the constitution.

The Council of the Municipality in adopting this policy on writing off bad debts recognizes its responsibilities as set out in Chapter 9 of the Local Government Municipality Systems Act, Act 32 of 2000 as amended.

### **15.3 Vision**

The vision of the policy is to ensure that the debtors of the municipal Council are not over stated in the books of the Council.

To ensure any long outstanding debt is evaluated in order to determine the possibility of realizing such income as revenue.

To ensure that where it is evident that a particular debt cannot be turned into a revenue such debt be procedurally regarded as irrecoverable.

To ensure that the Council of the municipality makes enough provision for bad debts in the budget.

To ensure that outstanding monies which have been outstanding for a long time after all attempts have been made in terms of recovering them should then be written off.

### **15.4 Statement**

This policy aims to set down principles for the implementation of the writing off of bad debts and the provision for doubtful debts.

### **15.5 Objectives**

The objective of this policy is to provide for:

- The identification of bad debts during the course of the financial year.
- The writing off of bad debts will be actioned where possible if prescribed.
- The proper delegation of powers to the Municipal Manager to write off bad debts up to a certain amount.

### **15.6 Identification of irrecoverable debts**

When the municipality identifies customers whose debts appear to be irrecoverable even after the whole credit control and debt collection process have been followed in terms of trying to obtain payment, then such accounts should be regarded as irrecoverable unless:

Debt collection procedures may be terminated under the following circumstances:

- A balance being too small to recover, for economic reasons considering the cost of recovery.
- Prescription of debt.

- When a debtor with an inactive account cannot be traced by collectors.
- All reasonable notifications and legal actions to recover the outstanding amount have been exhausted.
- The amount outstanding is the residue after payment of divided in the rand from an insolvent estate.
- It is impossible to prove the debt outstanding.
- The outstanding amount cannot be revoked due to an administrative error by Council.
- The schedules setting out particulars of the debt and the reasons for abandonment or write off, together with a written request to approve it to be written off, must be presented to the Chief Financial Officer for submission to the Mayor, FPC, EXCO and Council for approval.

### **15.7 Writing off of irrecoverable debts**

Where debts have been identified as irrecoverable the process to be followed for write off is as follows:

The Chief Financial Officer must prepare a list of all these debts showing the following:

- Consumer details (which is available)
- Irrecoverable amount broken down by service.
- Details of procedures followed to recover the debt. (Which in the case of amounts less than R500.00 it would be confirmed whether a final demand was sent or not, as according to credit control and debt collection policy accounts owing less than R500.00 may not be handed over as it is not financially viable). However with regards to amounts above R500.00. confirmation of hand over must be given and any other relevant documentation.
- This list has been completed, an item to the Executive Committee of Council must be submitted to obtain a Council Resolution to write off these debts.
- Reasons for identifying amounts as irrecoverable must be stated.
- Once Council resolution has been obtained, the Income section must draw journals to write off these amounts against the bad debt provision account.

### **15.8 Specific write offs**

The Chief Financial Officer may submit a report to Council from time to time for specific uncollectable debt transactions such as:

- Liquidations in terms of section 89 of the Insolvency Act, Act 24 of 1936,
- Immovable properties bought back by Council
- Outstanding debts that are older than two years (2) that cannot be recovered during the transfer of immovable property, as in terms of section 118 (1)(b) of the Systems Act, Act 32 of 2000 as amended,
- A specific debt category, and or
- Penalties that have accrued in respect of Government outstanding accounts.

The report for specific write off must contain the following information:

- Full customer details,
- Reasons for each specific write off
- Amount to be written off must be broken down per service, and
- Details of procedures already exhausted in attempts to recover the outstanding amount.

## **16. ENFORCEMENT OF OTHER LEGISLATIONS & INCONSISTENCIES**

16.1 When interpreting a provision of these By-laws, any reasonable interpretation that is consistent with the purpose of the Act as set out in Chapter 9 on Credit Control and Debt collection, must be preferred over any alternative interpretation, which is inconsistent with that purpose.

16.2 The provisions of any By-laws relating to the control of credit by the Municipality are hereby repealed insofar as they relate to matters provided for in these by-laws, provided that such provisions shall be deemed not to have been repealed in respect of any such Bylaw which has not been repealed and which is not repugnant to these By-laws on the basis as determined by the relevant By-laws.

16.3 If there is any conflict between these By-laws and any other By-laws of the Council, these By-laws will prevail.

16.4 Municipal support of the Policy.

Each department of the Municipality will support this policy in terms of their powers and functions.

16.5 Refer to paragraph 6.5.3.

Impairment of Bad debts will be calculated through the financial systems impairment programme which will be reviewed on an annual basis.

16.6 Council may from time to time implement an incentive scheme which may entail writing off of certain debts.

## **17. DELEGATIONS**

17.1 The Chief Financial Officer be delegated to write off all irrecoverable debts up to the value of R500.00.

17.2 All debts above the value of R500.00 be referred to the Executive Mayor for approval to write off as irrecoverable.

**POLICY ADOPTION**

This Policy is adopted and approved by the full Council of Alfred Duma Local Municipality for implementation as follows.

Resolution Number \_\_\_\_\_

Approval Date \_\_\_\_\_

**EFFECTIVE DATE**

This Policy shall become effective as from the following Date: \_\_\_\_\_ .

## SUMMARY OF PROPOSED CHANGES – INDIGENT POLICY

Red & underlined = Inserted  
~~Strikethrough~~ = Deleted

**PAGE 1 (Cover page)**

**Draft Indigent Policy 2018/2019 2019/2020**

# ALFRED DUMA LOCAL MUNICIPALITY



## DRAFT INDIGENT POLICY 2019/2020

## PREAMBLE

**Whereas** - the municipality receives an equitable share contribution from National Treasury annually;

**And whereas** - the National Department of Provincial and Local Government has issued guidelines regarding indigent support;

**And whereas** - the municipal council wishes to give access to basic services for all of its communities;

**Now therefore** - the municipal council of Ennambithi/Ladysmith Alfred Duma adopts the following:

**TABLE OF CONTENTS**

	<b>Page</b>
1. DEFINITIONS .....	4
2. PURPOSES OF THE INDIGENT POLICY.....	5
3. CRITERIA FOR QUALIFICATION.....	5
4. EXTENT OF INDIGENT SUPPORT.....	6
5. ADDITIONAL INDIGENT SUBSIDY.....	7
6. ARREARS ON INDIGENT ACCOUNTS.....	7
7. NON-COMPLIANCE OF HOUSEHOLDS REGISTERED AS INDIGENT.....	8
8. IMPLEMENTATION AND REVIEW.....	8

## DEFINITIONS

### 1. In this policy, unless the context indicates otherwise –

**‘Basic municipal services’** means a municipal service that is necessary to ensure an acceptable and reasonable quality of life that if not provided, would endanger public health or safety or the environment. For the purposes of this framework “Basic Municipal Services” refers to the following services rendered and subsidized by municipality: electricity/ alternative energy and refuse removal.

**‘Child headed households’** means households headed by a person under the age of 21 years but with all other requirements for an indigent household as stated in this document.

**‘Consumer’** means any occupier of premises to which the Council has agreed to provide or is actually providing any municipal service, or if there is no occupier, the owner of the premises concerned.

**‘Household’** - refers to a house and its occupants regarded as a unit or the people in a family or other group that are living together in one house, including biological/foster/adopted children.

**‘Indigent’** means any household or category of households, including a child headed household, earning less than a combined gross income, as determined by the municipality during the compilation of annual budget in terms of a social and economic analysis of its area;

**‘Municipal tariff’** means a tariff for a service which a municipality may set for the provision of a service to the local community, and includes a surcharge on such tariff.

**‘Occupier’** means any person who occupies any premises or part thereof, without regard to the title under which he or she so occupies.

**‘Property’** means any portion of land, of which the boundaries are determined within the jurisdiction of the Municipality;

Defined in terms of MPRA as:

- (a) immovable property registered in the name of a person;
- (b) a right registered against immovable property in the name of a person;

- (c) a land tenure right registered in the name of a person or granted to a person in terms of legislation or;
- (d) public service infrastructure.

**‘Property owner’** means a person in whose name property is registered/ the holder of a title deed.

**‘Restricted service levels’** - refers to metering and billing system that restricts the household’s consumption of free basic service to the predetermined level allocated to a particular household.

## 2. PURPOSE

The purpose of the indigent policy is to:

- a) provide basic services to the community within the financial and administrative capacity of the municipality;
- b) provide procedures and guidelines for the subsidisation of basic service charges to indigent households using the equitable share allocation, received from Central Government, and other budgetary provisions; and
- c) ensure affordability by subsidising tariffs calculated in terms of the municipality’s tariff policy and by setting appropriate service levels in accordance with the municipality’s service delivery plan.

## 3. CRITERIA FOR QUALIFICATION

- a) A household, where the combined gross income (**excluding foster care grant monies**) of all the members of the household, over the age of 18 years old, is equal to or less than two (2) state pension grant income;
- b) The applicant must be the owner of the property, for which he/she is registering as indigent, or an executor of the property for which he/she is registering as indigent (relevant documents will be required in this instance);
- c) The applicant should not jointly or severally own more than one property;
- d) The applicant must complete an official application form and provide the required documentary proof;
- e) The applicant must give a consent to the municipality to do a credit check through any third party to verify the information supplied.
- f) The applicant must reside in the municipal area and may not conduct any commercial or industrial activity from the property;

- g) The applicant must be the full-time occupant and may not own any other property, whether within or outside of the municipal area;
- h) The subsidy will only be valid for 12 months, whereafter the applicant then must re-apply;
- i) The application will be approved by the municipality after the information supplied has been verified;
- j) All applicants shall be informed in writing with regard to the outcome of their application;
- k) An indigent applicant must immediately request de-registration if his/her conditions have changed to an extent that he/she no longer qualifies for the indigent support in terms of the criteria set out above;
- l) Council may send officials to the indigent applicant's premises or household for the purpose of conducting an on-site audit of the details provided as well as for indigent audit purposes.

#### **4. EXTENT OF INDIGENT SUBSIDY**

- a) Subsidies will be limited to rates, refuse removal and electricity.
- b) The extent of the monthly indigent support granted to indigent households must be based on budgetary allocations for a particular financial year and the tariffs determined for each financial year.
- c) The source of funding of the indigent subsidy is that portion of the equitable share contribution received from National Treasury and any additional provisions made by council and provided for in the annual operating budget.
- d) The subsidy will only be credited to the qualifying customer's accounts until the amount provided on the budget has been exhausted.
- e) Annual service charges on the indigent's account must automatically be converted to monthly instalments.
- f) In respect of electricity, all approved beneficiaries for the indigent support automatically qualify for Free Basic Electricity on a 20 amps supply under the following conditions:
  - i. On approval, the conventional electricity meter shall be replaced with a prepaid electricity meter;
  - ii. Until such time, the conventional meter is replaced with a prepaid electricity meter, the applicant shall remain responsible for the consumption charges against that conventional electricity meter.

- iii. Approved indigent registered household must receive 50kWh free electricity token per month provided that monthly average usage is 150kWh or less.
- g) In respect of refuse removal services, a full subsidy will apply.
- h) In respect of property rates, the applicant will receive a full subsidy.
- i) The accounts of indigent households will be exempted from interest.
- j) In cases where the consumers is/are minor/s due to circumstances, an appointed guardian may apply on behalf of the minor/s until such time that the minor/s are allowed to apply in terms section 3 (a) of this policy.

## 5. ADDITIONAL INDIGENT SUBSIDY

- a) Council may provide grants in lieu to certain categories of owners of domestic properties to alleviate poverty.
- b) Properties categorised as domestic with a market value less to be determined by Council annually will qualify for the indigence subsidy. The same benefits will apply as for application indigence. This subsidy will only apply if Council can afford the rebate for a financial year and write-off of arrears for qualifying households will only be approved for rates and refuse charges only.
- c) Council may approve, during the yearly budget process, relieve programmes for rates and refuse for owners who are medically boarded, pensioners and disabled persons and child headed households on application.

## 6. ARREARS ON INDIGENT ACCOUNTS

- a) Upon registration as an indigent household, the outstanding arrears on the account of the applicant must be kept pending for a period of up to six months after which it may be written off, interest may be calculated on the arrears as contemplated.
- b) If the applicant exits from the indigent support programme within the six (6) months period the outstanding arrears, written-off for the financial year concerned, must be re-introduced in the account and be subjected to the credit control and debt collection policy of the municipality.
- c) ~~Council may from time to time decide to write off indigent arrears. No further legal action must be taken on such indigent arrears.~~ The debt of an Indigent customer may be written-off and taken to Council for noting.

## 7. NON-COMPLIANCE OF HOUSEHOLDS REGISTERED AS INDIGENT

- a) When the indigent applicant fails to comply with any of the conditions as required this policy in order to receive the indigent subsidy benefit, such person will forfeit his or her status as a registered indigent customer with immediate effect, and will thereafter be treated as an ordinary customer for the financial year concerned.
- b) The onus is on each registered indigent to advise the municipal manager of such failure to comply due to the changed circumstances.
- c) The indigent status of an approved indigent customer will be reviewed from time to time, at intervals as determined by Council. This could be done by either physical audit or external verification check such as ITC – Credit Bureau, ~~and other means deemed appropriate.~~ Department of Labour or any other source of verification. Should the requirements not be met, the subsidy for that consumer ~~will be cancelled.~~ terminated with immediate effect.
- d) If a registered indigent is found to have provided fraudulent information to the municipality in regard to any material condition for registration as an indigent, such person shall immediately be removed from the register of indigents, and shall be liable to repay the municipality with immediate effect all indigent relief received and debt written-off from the date of such fraudulent registration. Moreover, such person may not again be considered for indigent relief for a period extending for five years beyond the financial year in which the misdemeanour was detected.
- e) Indigent support will be automatically terminated under the following circumstances:
  - i. Upon the death of the applicant, unless the executor of the property re-applies and meets the qualifying criteria;
  - ii. At the end of a financial year;
  - iii. When the indigent applicant disposes of the property, either by sale or by means of donation.

## 8. IMPLEMENTATION AND REVIEW

- a) The Accounting Officer shall be responsible for the implementation and administration of this policy with the assistance of the Chief Financial Officer in the Department of Finance, once approved by Council.
- b) The policy shall be reviewed annually as part of the budget process.



**Alfred Duma**  
Local Municipality

Service Delivery beyond expectation

***AFRED DUMA LOCAL  
MUNICIPALITY  
DRAFT ASSET MANAGEMENT  
POLICY  
2019/20***

**Contents**

<b>1</b>	<b>Key definitions</b>	<b>1</b>
<b>2</b>	<b>Statutory and regulatory framework</b>	<b>8</b>
<b>3</b>	<b>Asset Management Policy Summary</b>	<b>9</b>
<b>4</b>	<b>Classification of fixed assets</b>	<b>12</b>
4.1	Objectives	12
4.2	Property, plant and equipment	12
4.3	Land and buildings	12
4.4	Infrastructure Assets	13
4.5	Community Assets	13
4.6	Heritage assets	13
4.6.1	Fixed assets register	13
4.6.2	Annual financial statements	14
4.7	Investment property	14
4.7.1	Accounting and recording	14
4.7.2	Depreciation	14
4.7.3	Valuation	15
4.8	Intangible Assets	15
4.9	Leased Assets	16
4.9.1	Finance lease	16
4.9.2	Operating lease	17
4.10	Housing Development Fund	17
4.11	Other Assets	18
4.12	Inventory	18
4.12.1	Housing Stock	18
4.12.2	Recording	19

5	Accounting for Property, Plant and Equipment	20
5.1.1	Recognition of property, plant and equipment	20
5.1.2	Initial measurement	20
5.1.3	Donations or exchanges	21
5.1.4	Carrying amount on property plant and equipment	21
6	Safekeeping, identification and movement of fixed assets	Error! Bookmark not defined
6.1	Objectives	23
6.2	Safekeeping	23
6.3	Identification	23
6.4	Transfers to another Asset Controller	24
6.4.1	Permanent transfers to another Asset Controller	24
6.4.2	Relocation or Reassignment of Property, Plant or Equipment	24
6.4.3	Verification	24
7	Fixed assets register	26
7.1	Objective	26
7.1.1	Establishment and Management of the Financial Asset Register	26
7.1.2	Format of the fixed assets register	26
7.2	Provision of information for the fixed asset register	27
7.3	Recording on the register	27
7.4	Carrying value	28
7.4.1	Internal Controls over the Financial Asset Registers	28
8	Acquisition and replacement of fixed assets	29
8.1	Objectives	29
8.2	Acquisition of fixed assets	29
8.3	Physical Receipting and Management	29
8.3.1	Responsibilities of the Asset Controller	29
8.3.2	The date of acquisition	30

8.4	Replacement of fixed assets	30
9	Capitalisation criteria	31
9.1	Objective	31
9.1.1	Recognition of fixed assets	Error! Bookmark not defined.
9.2	Reinstatement, maintenance and other expenses	31
9.2.1	Enhancement and rehabilitation costs	31
9.2.2	Maintenance costs	31
9.2.3	Expenses to bring the asset into operation	31
9.2.4	Subsequent expenditure on property plant and equipment	32
10	Management and operation of assets	33
10.1	Objectives	33
10.1.1	Accountability to manage property plant and equipment	33
10.1.2	Contents of a strategic asset management plan	33
10.1.3	Reporting on Emerging Issues	34
11	General, planned and deferred Maintenance	35
11.1	Objectives	35
11.2	General and planned maintenance	35
11.2.1	Maintenance planning	35
11.3	Deferred maintenance	36
11.3.1	Disclosure of deferred maintenance	36
12	Depreciation	37
12.1	Objectives	37
12.2	Depreciation	37
12.2.1	Assets to depreciate	37
12.2.2	Calculation of depreciation	37
12.2.3	Rate of depreciation	37
12.2.4	Depreciation rate	38

12.2.5	Initial determination useful life	38
12.2.6	Review of useful life	38
12.2.7	Review of depreciation method	39
12.3	Componentisation of major portions of assets	39
13	Amendment of asset lives and impairment in value of fixed assets	41
13.1	Objective	41
13.2	Amendment of asset lives	41
13.2.1	Authority to amend useful life	41
13.2.2	Circumstances to amend useful life	41
13.3	Impairment of fixed asset value	41
13.3.1	Circumstances to fully depreciate fixed assets	Error! Bookmark not defined.
13.4	Impairment of fixed assets	41
13.4.1	Subsequent increase in recoverable amount	42
14	Funding sources and reserves	43
14.1	Objectives	43
14.1.1	Main funding sources	43
14.1.2	Capital Replacement Reserve (CRR)	43
14.1.3	Conditional grants, subsidies, public contributions and donations	Error! Bookmark not defined.
14.1.4	Revenue contributions	44
14.1.5	Surplus cash	44
15	Re-valuation of fixed assets	45
15.1	Objective	45
15.1.1	Re-valuation process	45
15.1.2	Re-valuation reserve	45
15.1.3	Depreciation of re-valued property	45
16	Insurance, loss, damage, theft	46

16.1	Objective	46
16.2	Insurance of fixed assets	46
16.3	Loss, damage, theft of fixed assets	46
17	Disposal and retirement from use	47
17.1	Objective	47
17.2	Municipal asset transfer regulations	47
17.3	Disposal of fixed assets	48
17.4	Other write-offs	48
17.4.1	Accounting treatment on Disposal	49
17.4.2	The Supply Chain Management Policy	49
18	Accounting and financial statement disclosure	50
18.1	Objective	50
18.2	Detailed disclosure requirements	50

## 1 Key definitions

### ***"Accounting Officer"-***

Means the Municipal Manager;

### ***"Asset"***

Resources controlled by an entity as a result of past events and from which future economic benefits or service potential are expected to flow to the entity.

### ***"Basic Municipal Service"***

Means a municipal service that is necessary to ensure an acceptable and reasonable quality of life and which, if not provided, would endanger public health or safety or the environment;

### ***"Carrying Amount"***

The amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses.

### ***"Chief Financial Officer"***

Means a person designated in terms of section 80(2) (a) of the MFMA;

### ***"Cost"***

The amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP

### ***"Councillor"***

Means a member of a municipal council;

**"Current year"**

Means the financial year, which has already commenced, but not yet ended;

**"Depreciable amount"**

The cost of an asset, or other amount substituted for cost, less its residual value.

**"Depreciation"**

The systematic allocation of the depreciable amount of an asset over its useful life.

**"Fair value"**

The amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

**"Financial year"**

Means a twelve months period commencing on 1 July and ending on 30 June each year

**"Financing agreement"**

Includes any loan agreement, lease, and instalment purchase contract or hire purchase arrangement under which a municipality undertakes to repay a long-term debt over a period of time;

**GRAP 17"**

The accounting standards applicable to municipalities  
GRAP – Generally Recognised Accounting Practice

**"Heritage assets"**

Some assets are described as “heritage assets” because of their cultural, environmental or historical significance. Examples of heritage assets include historical buildings and monuments, archaeological sites, conservation areas and nature reserves, and works of art.

**“Impairment loss”**

- Of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.
- Of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

**“Infrastructure assets”**

These assets usually display some or all of the following characteristics:

- (a) They are part of a system or network,
- (b) They are specialised in nature and do not have alternative uses,
- (c) They are immovable, and
- (d) They may be subject to constraints on disposal.

Examples of infrastructure assets include road networks, sewer systems, water and power supply systems and communication networks.

**“Inventory”**

Are assets:

- (a) In the form of materials or supplies to be consumed in the production process,
- (b) In the form of materials or supplies to be consumed or distributed in the rendering of services,
- (c) Held for sale or distribution in the ordinary course of operations, or
- (d) In the process of production for sale or distribution

**"Investment"**

In relation to funds of a municipality, means-

- (a) The placing on deposit of funds of a municipality with a financial institution;
- or
- (b) The acquisition of assets with funds of a municipality not immediately required, with the primary aim of preserving those funds;

**"Investment properties"**

Property (land or a building or part of a building – or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both.

**"Local community"**

Has the meaning assigned to it in section 1 of the Municipal Systems Act;

**"Municipal Structures Act"**

Means the Local Government: Municipal Structures Act, 1998 (Act No. 117 of 1998);

**"Municipal Systems Act"**

Means the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000);

**"Long-term debt"**

Means debt repayable over a period exceeding one year;

**"Municipal council" or "Council"**

Means the council of a municipality referred to in section 18 of the Municipal Structures Act; (refer to the MSA for definition);

**"Municipality"-**

- (a) when referred to as a corporate body, means a municipality as described in section 2 of the Municipal Systems Act; or
- (b) When referred to as a geographic area, means a municipal area determined terms of the Local Government: Municipal Demarcation Act, 1998 (Act No. 27 of 1998);

**"MFMA"**

The Local Government: Municipal Finance Management Act (No. 56 of 2003)

**"Municipal Manager" "MM"**

Means a person appointed in terms of section 82(l) (a) or (b) of the Municipal Structures Act;

**"Municipal service"**

Has the meaning assigned to it in section 1 of the Municipal Systems Act (refer to the MSA for definition);

**"National Treasury" "NT"**

Means the National Treasury established by section 5 of the Public Finance Management Act;

**"Official"**

Means-

- (a) An employee of a municipality or municipal entity;
- (b) A person seconded to a municipality or municipal entity to work as a member of the staff of the municipality or municipal entity; or

(c) A person contracted by a municipality or municipal entity to work as a member of the staff of the municipality or municipal entity otherwise than as an employee

**"Property Plant and Equipment"**

Are tangible assets that:

- (a) Are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and
- (b) Are expected to be used during more than one reporting period.

**"PT", "Provincial Treasury"**

Means the Provincial Treasury branch established by section 5 of the Public Finance Management Act;

**"Quarter"**

Means any of the following periods in a financial year:

- (a) 1 July to 30 September;
- (b) 1 October to 31 December;
- (c) 1 January to 31 March; or
- (d) 1 April to 30 June;

**"Recoverable amount"**

The higher of a cash-generating asset's net selling price and its value in use.

**"Residual value"**

The estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

**"Useful life"**

- (a) The period over which an asset is expected to be available for use by an entity,
- or
- (b) The number of production or similar units expected to be obtained from the asset by an entity.

**"Vote"****Means-**

- (a) One of the main segments into which a budget of a municipality is divided for the appropriation of money for the different departments or functional areas of the municipality; and
- (b) Which specifies the total amount that is appropriated for the purposes of the department or functional area concerned.

## 2 Statutory and regulatory framework

This policy must comply with all relevant legislative requirements including:

- The Constitution of the Republic of South Africa, 1996
- The Municipal Structures Act, 1998
- The Municipal Systems Act, 2000 as amended
- The Division of Revenue Act (enacted annual)
- The Municipal Finance Management Act, 2003
- The Local Government: Municipal Finance Management Act, 2003 – Municipal Asset Transfer Regulations (Gazette no. 31346).

This policy must comply with the standards specified by the Accounting Standards Board. The current relevant recognized accounting standards include:

- GRAP 17 Property Plant and Equipment
- GRAP 12 Inventories
- GRAP 103 Heritage Assets
- GRAP 16 Investment Properties
- GRAP 31 Intangible Assets

This policy will be updated annually or whenever legislative or accounting standard amendments significantly change the requirements pertaining to asset management in general and the administration of property, plant and equipment.

This policy should be read in conjunction with all applicable Alfred Duma Local Municipality policies including the Supply Chain Management Policy.

### 3 Asset Management Policy Summary

Objectives	Key principles to be achieved
<p>The objectives of this policy are to ensure that assets are managed and accounted for by:</p> <ul style="list-style-type: none"> <li>• Accurate recording of fixed assets and related transactions</li> <li>• Compliance with municipal legislation and accounting standards</li> <li>• Compliance with accounting policies and standards</li> <li>• Providing management information on fixed assets</li> <li>• To ensure Asset Controllers are aware of their responsibilities in regards to assets.</li> <li>• To set out the standards of physical management, recording and internal controls to ensure property, plant and equipment are safeguarded against inappropriate loss or utilisation.</li> <li>• To specify the process required before expenditure on assets.</li> <li>• To prescribe the accounting</li> </ul>	<ul style="list-style-type: none"> <li>• Safekeeping of assets</li> <li>• Accurate, complete recording of all the municipality's fixed assets</li> <li>• Each departmental manager is responsible for the fixed assets in their department</li> <li>• Asset register must balance to the financial statements</li> <li>• Fixed assets must be properly maintained and insured</li> <li>• The fixed assets register and annual financial statements must comply with the applicable accounting standards and legislation applicable at the time</li> </ul>

<p>treatment for assets including:</p> <ul style="list-style-type: none"> <li>- The criteria to be met before expenditure can be capitalised as an asset,</li> <li>- The criteria for determining the initial cost of the different assets</li> <li>- The method of calculating depreciation for different assets,</li> <li>- The criteria for capitalising subsequent expenditure on assets,</li> <li>- The policy for scrapping and disposal of assets,</li> <li>- The classification of assets.</li> </ul>	
---	--

Key performance areas (strategic intent)	No.
<ul style="list-style-type: none"> <li>• Classification of fixed assets</li> <li>• Accounting for Property, Plant and Equipment</li> <li>• Safekeeping and identification of fixed assets</li> <li>• Format of fixed assets register</li> <li>• Acquisition and replacement</li> <li>• Capitalisation criteria</li> <li>• Management and operation of assets</li> </ul>	

<ul style="list-style-type: none"><li>• General planned &amp; deferred Maintenance</li><li>• Depreciation of fixed assets</li><li>• Amendment of asset lives and impairment</li><li>• Funding sources and reserves</li><li>• Re-valuation of fixed assets</li><li>• Insurance, loss, damage, theft</li><li>• Disposal and retirement from use</li><li>• Disclosure</li></ul>	
--	--

## **4 Classification of fixed assets**

### **4.1 Objectives**

To ensure that fixed assets meeting certain criteria and characteristics are grouped and classified together according to regulated guidelines and standards.

### **4.2 Property, plant and equipment**

The Chief Financial Officer shall insure that all fixed assets are classified as follows in the Annual Financial Statements and fixed assets register:

- Land and buildings
- Infrastructure assets
- Community assets
- Heritage assets
- Investment property
- Intangible Assets
- Leased Assets
- Housing Development Fund
- Other assets

### **4.3 Land and buildings**

This includes property held/used for:

- The use in the production or sale of goods and services and administrative purposes
- Sale in the ordinary course of business
- Held for future own use or development
- Occupied by the municipality or employees

- Social services that generate cash flows where the revenue is incidental to the actual purpose

#### 4.4 Infrastructure Assets

In terms of GRAP 17 these assets usually display some or all of the following characteristics:

- They are part of a system or network,
- They are specialised in nature and do not have alternative uses,
- They are immovable, and
- They may be subject to constraints on disposal.

Examples of infrastructure assets include road networks, sewer systems, water and power supply systems and communication networks.

#### 4.5 Community Assets

These assets are used by members of the community and include items such as:

- Community halls or centres
- Parks and Gardens
- Stadiums and sports grounds

#### 4.6 Heritage assets

##### 4.6.1 Fixed assets register

If no original costs or fair values are available in the case of heritage assets, the Asset Manager should record such asset or assets in the fixed asset register at a value as determined in terms of the guidance and accounting standards for heritage assets.

#### **4.6.2 Annual financial statements**

For purposes of compiling the statement of financial position, the existence of such heritage assets shall be disclosed by means of an appropriate note in the Annual Financial Statements.

#### **4.7 Investment property**

Investment property is property (land or a building – or part of a building – or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both, rather than for:

- (a) use in the production or supply of goods or services or for administrative purposes; or
- (b) sale in the ordinary course of operations. These are investment assets held as resources for capital or operational gain

##### **4.7.1 Accounting and recording**

- Investment Property assets will be accounted for in terms of GRAP 16 and initially recorded at cost including transaction cost. Following initial recognition, the investment property will be recognized at fair value reflecting the market conditions at the reporting date. An expert valuer may be engaged by the municipality to undertake such valuations.
- Transfer to and from investment property will be in accordance with GRAP 12 Inventories or GRAP 17 Property Plant and Equipment whichever is appropriate.
- If the council of the municipality resolves to construct or develop a property for future use as an investment property, such property will be accounted for as property, plant and equipment until it is ready for its intended use and reclassified as an investment property.

##### **4.7.2 Depreciation**

- Investment Properties assets shall not be depreciated, but shall be valued on balance sheet date to determine their fair (market) value
- Investment Properties assets shall be recorded in the statement of position at such fair value

#### 4.7.3 Valuation

- Adjustments to the previous year's recorded fair value shall be accounted for as either gains (revenues) or losses (expenses) in the accounting records of the department or service controlling the assets concerned
- The Municipal Valuer shall be engaged by the municipality to undertake such valuations
- Where the council of the municipality resolves to construct or develop a property for future use as an investment property, such property shall in every respect be accounted for as an ordinary fixed asset until it is ready for its intended use – where after it shall be reclassified as an investment asset

#### 4.7.4 Classification

An asset will be classified as an Investment property as per the requirements of GRAP 16, if it is land (*serviced vacant land*) it shall fall into this category and (*un-serviced vacant land*) to either PPE, Inventory, Heritage or Other applicable standards. Land marked for RDP Housing shall be classified as PPE or Inventories guided by the requirements of both standards and the intention of Council and not investment properties.

#### 4.8 Intangible Assets

GRAP 31 defines an intangible asset is an identifiable non-monetary asset without physical substance.

An asset meets the identifiably criterion in the definition of an intangible asset when it:

- Is separable, i.e. is capable of being separated or divided from the entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, asset or liability; or
- Arises from contractual rights (including rights arising from binding arrangements) or other legal rights (excluding rights granted by statute), regardless of whether

those rights are transferable or separable from the entity or from other rights and obligations.

#### **4.9 Leased Assets**

Leased assets will be treated in terms of GRAP 13 (Leases).

##### **4.9.1 Finance lease**

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.

The following are examples of situations which would normally lead to a lease being classified as a finance lease, a lease does not need to meet all these criteria in order to be classified as a finance lease:

- The lease transfers ownership of the asset to the lessee by the end of the lease term,
- The lessee has the option to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception of the lease, that the option will be exercised.
- The lease term is for the major part of the economic life of the asset even if title is not transferred
- At the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset
- The leased assets are of a such a specialised nature that only the lessee can use them without major modifications, and
- The leased assets cannot easily be replaced by another asset.

Any initial direct costs of the lessee are added to the amount recognised as an asset. The costs identified as directly attributable to activities performed by the lessee for a finance lease are added to the amount recognised as an asset.

A finance lease gives rise to a depreciation expense for depreciable assets as well as finance expense for each accounting period. The depreciation policy for depreciable leased assets shall be consistent with that for depreciable assets that are owned, and the depreciation recognised shall be calculated in accordance with the Standard of GRAP on Property, Plant and Equipment and the International Accounting Standard on Intangible Assets. If there is no reasonable certainty that the lessee will obtain ownership by the end of the lease term, the asset shall be fully depreciated over the shorter of the lease term and its useful life.

#### **4.9.2 Operating lease**

A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

Lease payments under an operating lease shall be recognised as an expense in the statement of financial performance on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit.

#### **4.10 Housing Development Fund**

In terms of the National Treasury Guidelines from the implementation of GRAP, the Housing Development Fund is a statutory fund and must be disclosed on the Statement of Financial Position as such. Municipalities should continue operating a housing operating account.

Municipalities should include "old scheme" housing transactions in the Statement of Financial Performance, including revenue earned and expenses incurred. New expenses, such as the

Depreciation of housing rental units and the provision for bad debts, will need to be included in the Statement of Financial Performance. This means that the transactions of the "old scheme" should be budgeted for in the same manner as other activities of the municipality from both an operating and capital perspective.

When preparing financial statements, the net revenue or expenditure included in the municipality's Statement of Financial Performance will be transferred to the Housing

Development Fund through the Statement of Changes in Community Wealth. In this way, there will be compliance with the housing legislation and the new accounting standards.

#### **4.11 Other Assets**

Other assets will include assets which do not fall within the definitions described above, for example:

- Vehicles
- Machinery and equipment
- Furniture and fittings
- Computer hardware

#### **4.12 Inventory**

**Inventory will be accounted for as per the requirements of GRAP 12**

##### **4.12.1 Housing Stock**

This is rental or housing stock which is not held for capital gain

- This includes:
  - Land or buildings owned or acquired by the municipality with the intention of selling such property in the ordinary course of business

- Land or buildings owned or acquired by the municipality with the intention of developing such property for the purpose of selling it in the ordinary course of business
- These assets shall be accounted for as inventory, and not included in either property, plant and equipment or investment property in the municipality's statement of position

#### 4.12.2 Recording

- These Inventory assets will be recorded in a separate section of the asset register and maintained as required
- Inventories shall be measured at the lower of cost and net realizable value
- The cost of inventories shall comprise all costs of purchase, costs of development, costs of conversion and other costs incurred in bringing the inventories to their present location and condition
- Any land or buildings owned or acquired by the municipality with the intention of selling the property in the ordinary course of business, or any land or buildings owned or acquired by the municipality with the intention of developing the property for the purpose of selling it in the ordinary course of business, will be accounted for as inventory
- Where the municipality owns undeveloped land, usually this will be classified as property, plant and equipment. Where there is an intention to develop such land and to sell or transfer or contract it to a third party it should be classified as inventory rather than property, plant and equipment
- The purchase of land or buildings for resale should be classified as inventory if the land or buildings is held for short-term sale in the ordinary course of operations

## **5 Accounting for Property, Plant and Equipment**

### **5.1.1 Recognition of property, plant and equipment**

- An item of property, plant and equipment will be recognized as an asset when:
  - It is probable that future economic benefits or potential service delivery associated with the asset will flow to the municipality,
  - The cost of the asset to the municipality can be measured reliably,
  - The municipality has gained control over the asset,
  - Irrespective of the cost, if the asset meets the recognition criteria it should be recognised as an asset
  - The asset is expected to be used during more than one financial year.

All other acquisitions of property, plant and equipment that do not meet the recognition criteria will be expensed.

### **5.1.2 Initial measurement**

- An item of property, plant and equipment that qualifies for recognition as a non-current asset should be initially measured at its "cost of acquisition".
- This "cost of acquisition" will include all costs required to bring the asset to the proper working condition and position for its intended use. These costs usually include the following:
  - Purchase costs (less any discounts given)
  - Delivery costs
  - Installation costs
  - Professional fees for architects and engineers
  - Import duties
  - Non-refundable taxes
  - Site development costs
  - Contractor fees

**5.1.3 Donations or exchanges**

Where an item of property plant and equipment is acquired at no cost, or for a nominal cost, it will be initially measured at its fair value as at the date of acquisition and included in the non-current asset register.

**5.1.4 Carrying amount on property plant and equipment**

Subsequent to initial recognition as an asset, an item of property, plant and equipment should be carried at its cost less any accumulated depreciation and accumulated impairment, subject to the requirement to write an asset down to its recoverable amount or any subsequent revaluation.

**5.1.5 Items to Be Excluded from The Fixed Asset Register.**

items as deemed and signed off by the Asset Manager, Director Finance or Chief Financial Officer shall be expensed upon acquisition due to their nature, value, and susceptibility to breaking. The Alfred Duma Local Municipality has in the past identified these items as assets and included them in the FAR. These items are consumable in nature and should not be included in the FAR. To ensure efficiency in the administration of this policy, the items on the exclusion list do not meet the definition of assets at the municipality and will be expensed when purchased.

Banner
Calculators
Clock
Desk Letter Tray
Drills (light duty)
Office Fans (Not Industrial)
Fire Extinguisher
Flag Pole
Garden Furniture
Heaters
Kettles
Computer Keyboard
Measuring Wheels
Mirror
Plastic Assets (Chairs Tables etc.)
Pot plant
Weight Scale
Serving tray

Stationary – Punches
Stationary – Staplers
Tile Cutter (light duty)
TV Brackets

## **6 Safekeeping, identification and movement of fixed assets**

### **6.1 Objectives**

To prevent the loss, damage or theft from the misappropriation or misuse of fixed assets owned by the municipality.

### **6.2 Safekeeping**

Each departmental head shall:

- Be directly responsible for the physical safekeeping of any fixed asset controlled or used by the department in question
- Take the necessary steps to ensure the safekeeping of fixed assets under their control
- Adhere to any written directives issued by the Chief Financial Officer in regard to the control of or safekeeping of the municipality's fixed assets

### **6.3 Identification**

- The Chief Financial Officer shall ensure that the municipality maintains a fixed asset identification system which shall be operated in conjunction with its fixed asset register
- The identification system shall be determined by the Chief Financial Officer:
  - Acting in consultation with the municipal manager and other departmental heads
  - Comply with any legal prescriptions
  - Be decided upon within the context of the municipality's budgetary and human resources available
- Every departmental head shall ensure that the asset identification system approved for the municipality is properly applied in respect of all fixed assets controlled or used in their department

## **6.4 Transfers to another Asset Controller**

### **6.4.1 Permanent transfers to another Asset Controller**

- An Asset Accountant retains managerial accountability and control for a particular asset unless;
  - Another Senior manager agrees in writing to accept responsibility for that asset, and
  - The Asset Manager endorses the transfer.
- The Finance Department appropriately amends the Financial Asset register for all approved transfers.
- The new Asset Accountant assumes all the accountabilities of the previous Asset Controller.

### **6.4.2 Relocation or Reassignment of Property, Plant or Equipment**

- The Asset Accountant must ensure that the asset is appropriately safeguarded for loss, damage or misuse wherever it is located. Safeguarding includes ensuring reasonable physical restrictions and delegated management is implemented.
- The Asset Accountant must advise the Asset Manager whenever an asset is permanently relocated or reassigned from the location (or base) or cost centre recorded in the Financial Asset Register.
- The Asset Accountant must advise the Asset Manager whenever an asset is temporarily relocated or reassigned from the location (or base) or cost centre recorded in the Financial Asset Register. In this case, the Asset Accountant must also advise the Asset Manager when this asset is returned.

### **6.4.3 Verification**

- Every departmental head shall undertake a comprehensive verification of all fixed assets under their control:
  - At least once during June of every financial year
  - In compliance with the relevant written directives issued by the Asset Manager

- Report in writing to the Asset Manager in the format determined by the Chief Financial Officer, all relevant results of such fixed asset verification not later than 30 June
- The verification will include the following for assets under their control:
  - Ensuring that all assets are bar coded (where applicable)
  - Review the useful lives
  - Review the depreciation method used
  - Assess for condition and possible impairment

## Fixed assets register

### 6.5 Objective

To ensure that all of the municipality's fixed assets are recorded in such a way to enable adequate management and accounting for fixed assets

#### 6.5.1 Establishment and Management of the Fixed Assets Register

- The Asset Manager will establish and maintain the Asset Register containing key financial data on each asset that satisfies the criterion for recognition.
- Any additional register of database concerning information needed for the fixed asset register or asset maintenance needs to be established through the Asset Manager. The Asset Manager will be responsible to ensure that the additional asset registers or databases comply with the naming conventions of the asset register and also ensure that the information is aligned and linked to the main asset register. The Asset Manager will be responsible to ensure that all the information is updated and that no conflict of information exists within the different asset registers or databases that exist.

#### 6.5.2 Format of the fixed assets register

The fixed assets register should contain the following for each item of property, plant and equipment:

- Asset category
- Acquisition dates
- Clear descriptions of individual items
- Location
- Department / service that controls the asset
- A unique asset identification number/Bar code
- The original cost / fair value
- Depreciation charge and accumulated depreciation
- Carrying amount

- Method and rate of depreciation
- Impairment losses incurred during the year
- Source of financing
- Insurance arrangements
- Disposal date and price
- Date retired from use
- Re-valued amounts

#### **6.6 Provision of information for the fixed asset register**

Each departmental head under whose control any fixed asset falls shall:

- Promptly provide the Asset Manager in writing with any information required to compile the fixed asset register
- Promptly advise the Asset Manager in writing of any material change which may occur in respect of such information

#### **6.7 Recording on the register**

- A fixed asset shall be recorded in the fixed assets register, as soon as it is acquired
- Where the asset is constructed over a period of time, it shall be recorded as "assets under construction" until it is available for use, where after it shall be appropriately capitalised as a fixed asset
- A fixed asset shall remain in the fixed assets register for as long as it is in physical existence
- The following assets not to be included on the Fixed Asset Register due to their cost and nature:
  - Stationary items such as (punches, calculators, staples etc.).
  - Plastic chairs
  - Assets attached to building (shelves, etc.) except for air conditioners
  - Office bins

- Kitchen Appliances
- Notice Boards
- Other consumables (With a life span of less than a year)

## **6.8 Carrying value**

- All fixed assets shall be carried in the fixed asset register, and appropriately recorded in the annual financial statements, at their original cost or fair value less any accumulated depreciation
- The only exceptions to this rule shall be re-valued, impaired and heritage assets in respect of which no value is recorded in the fixed asset register

### **6.8.1 Internal Controls over the Fixed Asset Registers**

- Controls around these asset registers should be sufficient to provide an accurate, reliable and up to date account of assets under their control to the standards specified by the Accounting Officer and as required by the legislative framework
- These controls will include physical management and recording of all acquisitions, impairments, transfers, losses and disposals of their assigned assets as well as regular stock-takes and systems audits to confirm the adequacy of their controls.

## **Acquisition and replacement of fixed assets**

### **Objectives**

- To ensure fair, transparent and equitable acquisition of fixed assets in terms of the supply chain management policy, capital budget and IDP priorities
- To ensure that fixed assets are replaced when they have exhausted their effective service potential.

### **Acquisition of fixed assets**

- The Asset Manager will develop and provide a form to be completed by departmental heads for new acquisitions and ensure it provides all relevant information relating to the assets that has been acquired.
- Each departmental head will promptly inform the Asset Manager of new Movable/fixed assets taken that have been acquired and brought into use.
- Fixed assets should be acquired in terms of the approved capital budget. Any deviation from this should be approved by the Municipal Manager and Council.

### **Physical Receipting and Management**

#### **Responsibilities of the Asset Accountant**

- The Asset Accountant must ensure that the purchase of assets complies with all municipal policies and procedures
- The Asset Accountant must ensure the all assets (PPE, Investment Property, Heritage and Intangible assets) are duly processed, identified and uniquely coded (where appropriate) before they are received into the stewardship of the responsible custodian.
- Thereafter, ensure that assets received are recorded on the municipal asset register (this will be done by ensuring that the appropriate forms are completed correctly and handed over to the Asset Manager).

- The Head of Department must ensure all assets received into their stewardship are appropriately safeguarded for inappropriate use or loss. This will include appropriate control over the physical access to these assets and regular stock takes to ensure that no losses are incurred. Any known losses should be immediately reported to the Asset Manager as well as follow the process to report to Council.
- Each Head of Department will do an annual verification of all assets as part of the annual reporting processes coordinated by the Asset Manager.
- The Head of Department must ensure that property, plant and equipment is appropriately utilized these assets for the purpose that the municipality acquired them.

#### **7.3.2 The date of acquisition**

- The date of acquisition of an asset is deemed to be the time when legal title and control passes to the municipality.
- This may vary for different categories of assets but will usually be the point of time when the payment for that asset is approved.

#### **7.4 Replacement of fixed assets**

- Fixed assets will be replaced when they can no longer deliver the services effectively and efficiently
- Each departmental head will assess the service potential of the fixed assets under their control annually
- The results of these assessments will be included into each departmental head's contribution to the IDP and capital budgeting process

## **8 Capitalisation criteria**

### **8.1 Objective**

That all items that meet the recognition criteria are capitalised and accounted for in accordance to GRAP.

### **8.2 Reinstatement, maintenance and other expenses**

#### **8.2.1 Enhancement and rehabilitation costs**

Only expenses incurred in the following shall be capitalised:

- Enhancement of a fixed asset (in the form of improved or increased services or benefits flowing from the use of such asset)
- Material extension of the useful life

#### **8.2.2 Maintenance costs**

Expenses incurred in the maintenance or reinstatement of a fixed asset shall be considered as operating expenses

#### **8.2.3 Expenses to bring the asset into operation**

- Expenses to bring the fixed asset into operation of will be capitalised as part of such fixed asset
- Such expenses may include the following costs:
  - Import duties
  - Forward cover
  - Transportation
  - Installation
  - Assembly
  - Commissioning

#### 8.2.4 Subsequent expenditure on Assets

- Subsequent expenditure relating to an item of Asset that has already been recognized should be added to the carrying amount of the asset when it is probable that future economic benefits or potential service delivery, in excess of the originally assessed standard of performance of the existing asset, will flow to the municipality.
- All other expenditure should be recognized as an expense in the period in which it occurred.
- Before allowing the capitalization of subsequent expenditure, the Asset Manager must be satisfied that this expenditure significantly:
  - Increases the life of that asset beyond that stated in the asset register, or
  - Increases the quality of service that asset beyond the existing level of service, or
  - Increases the quantity of services that asset can provide, or
  - Reduces the future assessed costs of maintaining that asset.
- Expenditure that is proposed to be capitalized must also conform to recognition criteria for non-current assets and should also be appropriately included in the approved capital budget.
- Where it is desired to capitalise future component replacements, refurbishments or renewals, then please refer to the section on major components in this policy

## **9 Management and operation of assets**

### **9.1 Objectives**

To ensure that the municipality's fixed assets are effectively utilised and maintained.

#### **9.1.1 Accountability to manage Assets**

- Each Departmental Head is accountable to ensure that municipal resources assigned to them are utilized effectively, efficiently, economically and transparently. This would include;
  - Developing appropriate asset management systems, procedures, processes and controls for managing assets,
  - Providing accurate, reliable and up to date account of assets under their control,
  - The development and motivation of relevant strategic asset management plans and operational budgets that optimally achieve the municipality's strategic objectives.

#### **9.1.2 Contents of a strategic asset management plan**

- Asset Controllers need to manage assets under their control to provide the required level of service or economic benefit at the lowest possible long-term cost. To achieve this, the Asset Accountant will need to develop strategic asset management plans that cover:
  - Alignment with the Integrated Development Plan
  - Operational guidelines,
  - Performance monitoring,
  - Maintenance programs,
  - Renewal, refurbishment and replacement plans,
  - Disposal and Rehabilitation plans,
  - Operational, financial and capital support requirements, and
  - Risk mitigation plans including insurance strategies

- The operational budgets are the short to medium term plan for implementing this strategic asset management plan.

#### **9.1.3 Reporting on Emerging Issues**

Each Head of Department should report to the Municipal Manager on issues that will significantly impede the assets capability to provide the required level of service or economic benefit.

## **10 General, planned and deferred Maintenance**

### **10.1 Objectives**

To ensure that fixed asset maintained to a level to ensure that the fixed asset can be used efficiently and services can be effectively rendered to the community by:

- Planned maintenance
- General maintenance
- Reporting and follow-up of deferred maintenance

### **10.2 General and planned maintenance**

- Every departmental head shall be directly responsible for ensuring that all assets are properly maintained to ensure:
  - That such assets provide the desired level of service and;
  - Attain their useful operating lives

#### **10.2.1 Maintenance planning**

- An annual maintenance plan shall be prepared and submitted by each departmental head when the capital and operating budget is prepared annually
- A maintenance plan shall be submitted to the council prior to any approval being granted for the acquisition or construction of the infrastructure asset concerned
- The departmental head of the department controlling or using the infrastructure asset in question, shall annually report to the council at least quarterly) on:
  - The extent to which the relevant maintenance plan has been complied with
  - The likely effect which any non-compliance may have on the useful operating life of the asset concerned
- An annual maintenance plans should be approved by Council. The extent with which the approved maintenance plan is short of the required maintenance to maintain the assets to operate at its desired level should be disclosed. The effect

of this short planning and the overall asset live cycle cost should be should be considered during the approval process.

### **10.3 Deferred maintenance**

#### **10.3.1 Disclosure of deferred maintenance**

If there is material variation between the actual maintenance expenses incurred and the expenses reasonably envisaged in the approved maintenance plan for any infrastructure asset the Chief Financial Officer shall disclose the extent of and possible implications of such deferred maintenance in an appropriate note to the financial statements

Such note shall also indicate any plans which the council of the municipality has approved in order to redress such deferral of the maintenance requirements concerned

## **11 Depreciation**

### **11.1 Objectives**

To ensure that the accounting records and annual financial statements reflect fixed assets at a value in accordance with the rate at which the economic benefits and service potential has been utilised

### **11.2 Depreciation**

#### **11.2.1 Assets to depreciate**

All fixed assets, except land, Investment Properties and heritage assets, shall be depreciated

#### **11.2.2 Calculation of depreciation**

- Depreciation will take the form of an expense both calculated and debited on a monthly basis against the appropriate service in which the asset is used or consumed.
- Depreciation shall initially be calculated from:
  - The month in which a fixed asset is acquired or
  - In the case of construction works and plant and machinery – calendar month concerned
- Depreciation charges shall be calculated monthly
- Depreciation will be included in the annual operating budget

#### **11.2.3 Rate of depreciation**

- The HOD and Asset Manager shall assign a useful operating life to each depreciable asset recorded on the municipality's fixed asset register
- The useful life shall be determined in consultation with the Departmental Head concerned

#### 11.2.4 Depreciation rate

- The Asset Manager shall depreciate all depreciable assets on the straight-line method of depreciation over the assigned useful operating life of the asset in question

#### 11.2.5 Initial determination useful life

- Each Asset Accountant needs to determine the useful life of a particular item or class property, plant and equipment through the development of a strategic asset management plan that forecasts the expected useful life that asset. This should be developed as part of the Pre-Acquisition Planning that would consider the following factors:
  - The operational, maintenance, renewal and disposal program that will optimize the expected long-term costs of owning that asset,
  - economic obsolescence because it is too expensive to maintain,
  - functional obsolescence because it no longer meets the municipalities needs,
  - technological obsolescence,
  - social obsolescence due to changing demographics, and
  - legal obsolescence due to statutory constraints.
- Spares purchased specifically for a particular asset, or class of assets, and which would become redundant if that asset or class was retired or use of that asset or class was discontinued, must be considered to form part of the historical cost of that asset or class. The depreciable amount of such spares must be allocated over the useful life of the asset or class.

#### 11.2.6 Review of useful life

The useful life of an asset should be reviewed regularly and if expectations are significantly different from previous estimates, the depreciation charge for the current and future periods should be adjusted.

### 11.2.7 Review of depreciation method

- The depreciation method applied to assets should be reviewed regularly, and if there has been a significant change in the expected pattern of economic benefits or potential service delivery from those assets, the method should be changed to reflect the changed pattern.
- When such a change in depreciation method is necessary the change should be accounted for as a change in accounting estimate and the depreciation charge for the current future periods should be adjusted.

### 11.3 Componentisation of major portions of assets

In terms of GRAP 17:53: "Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately."

- An Asset Accountant may, with agreement of the Asset Manager, treat specified major components of an item of property plant or equipment as a separate asset for the purposes of this policy.
- These major components may be defined by its physical parameters (e.g. a reservoir roof) or its financial parameters (e.g. a road surface).
- In agreeing to these treatments, the Asset Manager must be satisfied that these components:
  - Have significantly a different useful life or usage pattern to the main asset,
  - Align with the asset management plans,
  - The benefits justify the costs of separate identification,
  - It is probable that future economic benefits or potential service delivery associated with the asset will flow to the municipality,
  - The cost of the asset to the municipality can be measured reliably,
  - The municipality has gained control over the asset,
  - The costs is above the recognition threshold, and

- The asset is expected to be used during more than one financial year.
- All such decisions and agreements will be confirmed before the beginning of the financial year and submitted for approval with the budget. Any amendments will only be permitted as part of a budget review.
- Once a major component is recognized as a separate asset, it may be acquired, depreciated and disposed of as if it were a separate asset.
- All other replacements, renewals of refurbishments of components will be expensed

## **12 Amendment of asset lives and impairment in value of fixed assets**

### **12.1 Objective**

To ensure that the amendment of asset lives or the diminution in value thereof must take place in a controlled manner based on the operating value and service potential of those fixed assets

### **12.2 Amendment of asset lives**

#### **12.2.1 Authority to amend useful life**

Only the Asset Manager may amend the useful operating life assigned to any fixed asset

#### **12.2.2 Circumstances to amend useful life**

- The Asset Manager shall amend the useful operating life assigned to any fixed asset if:
  - it becomes known that such asset has been materially impaired or improperly maintained to such an extent that its useful operating life will not be attained, or
  - Any other event has occurred which materially affects the pattern in which the asset's economic benefits or service potential will be consumed

### **12.3 Impairment of fixed asset**

All assets shall be impaired in accordance to the standards of GRAP

### **12.4 Impairment of fixed assets**

- A fixed asset is said to be impaired where the recoverable amount or the recoverable service value is less than the carrying amount reflected in the accounting record
- Each departmental head shall annually, judge the useful lives, value and impairment of all the fixed assets under their control and submit to the Asset Manager

- When such a decline has occurred, the carrying amount should be reduced to the recoverable amount
- The amount of the reduction should be recognized as an expense immediately, unless it reverses a previous revaluation in which case it should be charged to a non-distributable reserve
- For asset providing economic benefits, the recoverable amount is the net present value of future ownership
- For asset providing future service delivery, the recoverable amount is the remaining proportional of its useful life, service capacity or quality of service that is not intended to be restored by normal maintenance programs

#### **12.4.1 Subsequent increase in recoverable amount**

- A subsequent increase in the recoverable amount of an asset, previously written down due to a decline in the carrying amount should be written back when the circumstances and events that led to the write-down or write-off cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future
- The amount written back should be reduced by the amount that would have been recognised as depreciation had the write-down or write-off not occurred

## **13 Funding sources and reserves**

### **13.1 Objectives**

- To ensure that fixed assets are funded in terms of the funding sources available
- To ensure that funding sources are completely and accurately disclosed in the fixed asset register and

#### **13.1.1 Main funding sources**

The main sources of finance to be used to acquire assets will be as follows:

- Capital Replacement Reserve (CRR)
- Grants, subsidies and public contributions
- Revenue contributions
- Cash surplus

#### **13.1.2 Capital Replacement Reserve (CRR)**

- Council must annually approve the basis and amounts for which contributions should be appropriated to the CRR
- This appropriation will be done in consideration of the funds available and future capital programme
- The CRR funds will be accumulated by:
  - Annual revenue contribution
  - Profit on disposal of assets
- When a fixed asset is financed from the CRR an amount is transferred to the CRR to Accumulated Surplus equal to the cost thereof
- The balance in the reserve must be cash backed

### 13.1.3 Revenue contributions

Revenue may be used to finance fixed asset items in terms of the approved budget

### 13.1.4 Surplus cash

- If there is sufficient surplus cash available, fixed assets may be financed directly from surplus cash
- Depreciation charges on these assets will not be offset

## **14 Re-valuation of fixed assets**

### **14.1 Objective**

Accurate re-valuation of fixed assets where the re-valuation model is used

#### **14.1.1 Re-valuation process**

- All land and buildings recorded in the municipality's fixed asset register shall be re-valued with the adoption by the municipality of each new valuation roll
- The Asset Manager shall adjust the carrying value of the land and buildings concerned to reflect in each instance the value of the fixed asset as recorded in the valuation roll, provided the Asset Manager is satisfied that such value reflects the fair value of the fixed asset concerned
- Re-valued fixed assets shall thereafter be depreciated on the basis of its re-valued amount

#### **14.1.2 Re-valuation reserve**

The Chief Financial Officer shall create a revaluation reserve for fixed assets that have been re-valued equal to the difference between the value as recorded in the and/or determined by a qualified valuer and the carrying value of the fixed asset in the asset register.

#### **14.1.3 Depreciation of re-valued property**

- The fixed asset concerned shall, in the case of buildings, thereafter be depreciated on the basis of its re-valued amount over its remaining useful operating life
- The increased depreciation expenses must be budgeted

**15 Insurance, loss, damage, theft****15.1 Objective**

To ensure that municipal fixed assets are adequately insured and adequate records are kept of loss, damage and theft.

**15.2 Insurance of fixed assets**

- The Chief Financial Officer shall ensure that all the fixed assets are adequately insured
- The municipal manager shall recommend to the council of the municipality, after consulting with the Chief Financial Officer, the basis of the insurance to be applied to each type of fixed asset: either
  - The carrying value or
  - The replacement value of the fixed assets concerned
- Such recommendation shall take due cognisance of the budgetary resources of the municipality
- The Chief Financial Officer shall ensure that insurance cover is sourced in terms of the supply chain management policy of the municipality
- The Chief Financial Officer shall annually submit a report to the council of the municipality for approval on any reinsurance cover which it is deemed necessary to procure for the municipality's self-insurance reserve

**15.3 Loss, damage, theft of fixed assets**

- Every departmental head shall promptly report every incident of loss, theft, destruction, or material impairment of any fixed asset controlled or used by the department in writing to the Chief Financial Officer and;
- In cases of suspected theft or malicious damage to municipal assets be reported to the South African Police Service
- Each departmental head shall prepare a schedule of loss, damage and theft and submit it to the Chief Financial Officer annually by 30 June

- The Asset Manager will then reconcile this information to the insurer's schedule and collate it into a report for external audit Disposal and retirement from use

#### 15.4 Objective

To ensure that disposal and transfer of ownership of any fixed asset shall be fair, equitable, transparent, competitive, consistent with the Supply Chain Management Policy and regulations.

#### 15.5 Municipal asset transfer regulations

The municipality will comply with the Local Government: Municipal Finance Management Act, 2003 – Municipal Asset Transfer Regulations (Gazette no. 31346) for all assets transferred or permanently disposed of. The following are the key areas of compliance:

- The Disposal Committee will meet to discuss which assets to dispose of
- The Accounting Officer must conduct a public participation process for the disposal of assets greater than 5% of the total value of assets
- Council must authorise the public participation process
- The municipal council must, when considering any proposed transfer or disposal, consider the following:
  - Whether the capital asset may be required for the municipality's own use at a later date
  - The expected loss or gain that is expected to result from the proposed transfer or disposal
  - The extent to which any compensation to be received in respect of the proposed transfer or disposal will result in a significant economic or financial cost or benefit to the municipality,
  - The risks and rewards associated with the operation or control of the capital asset that is to be transferred or disposed of in relation to the municipality's interests;

- The effect that the proposed transfer or disposal will have on the credit rating of the municipality, its ability to raise long-term or short-term borrowings in the future and its financial position and cash flow;
- Any limitations or conditions attached to the capital asset or the transfer or disposal of the asset, and the consequences of any potential non-compliance with those conditions;
- The estimated cost of the proposed transfer or disposal;
- The transfer of any liabilities and reserve funds associated with the capital asset; any comments or representations on the proposed transfer or disposal received from the local community and other interested persons;
- Any written views and recommendations on the proposed transfer or disposal by the National Treasury and the relevant provincial treasury;
- The interests of any affected organ of state, the municipality's own strategic, legal and economic interests and the interests of the local community; and compliance with the legislative regime applicable to the proposed transfer or disposal.

#### **15.6 Disposal of fixed assets**

- Each departmental head shall report in writing to the Asset Manager annually on all fixed assets controlled or used by the department concerned on which fixed assets they wish to dispose of by public auction, public tender or write-off by 30 June each year
- Each departmental head must take the necessary steps to ensure that all obsolete or damaged assets are disposed of in an appropriate and approved manner.

#### **15.7 Other write-offs**

- A fixed asset shall be written-off only on the recommendation of the departmental head of the department controlling the asset and with the final approval of Council

- Every departmental head shall report annually to the Asset Manager which fixed assets they wish to have written-off, stating the full reason for such recommendation by 30 April of each year
- The Asset Manager will then consolidate all such reports and submit a recommendation to Council for approval.
- Valid reasons for the writing-off of fixed assets shall be the disposal, loss, theft, destruction, incorrect capitalizations or material impairment of these fixed assets

#### **15.7.1 Accounting treatment on Disposal**

- An item of property, plant and equipment should be eliminated from the balance sheet on disposal or when the asset is permanently withdrawn from use and no future economic benefits or potential service delivery are expected from its disposal.
- Gains or losses arising from the retirement or disposal of an item of property, plant and equipment should be determined as the difference between the actual or estimated net disposal proceeds and the carrying amount of the asset, and should be recognized as revenue or expense in the income statement.

#### **15.7.2 The Supply Chain Management Policy**

The asset management policy must be read together with section 10 of the Municipality's "Supply Chain Management policy" which sets out requirements for "Disposal Management" under the following headings:

- Disposal and letting of the municipality's assets and,
- Evaluation of offers for disposal and letting of assets

## 16 Accounting and financial statement disclosure

Fixed assets should be disclosed and accounted for in terms of GRAP as applicable

### 16.1 Objective

To ensure that financial statement disclosures for fixed assets to be done in terms of GRAP as applicable

### 16.2 Detailed disclosure requirements

- The Chief Financial Officer must ensure that relevant and current GRAP accounting standards are applied for the disclosure of fixed assets on the financial statements
- The financial statements should disclose, in respect of each class of property, plant and equipment classified under the categories of Land and buildings, infrastructure, community, heritage, investment properties, intangible, leased, housing development fund and other assets:
  - The measurement bases used for determining the gross carrying amount. When more than one basis has been used, the gross carrying amount for that basis in each category should be disclosed.
  - The depreciation methods used.
  - The useful lives or the depreciation rates used.
  - Depreciation charged in arriving at net surplus or deficit for the period.
  - The gross carrying amount and the accumulated depreciation at the beginning and the end of the period.
  - A reconciliation of the carrying amount at the beginning and end of the period showing:
    - (i) additions
    - (ii) disposal
    - (iii) acquisition through business combinations

- (iv) increases or the decreases resulting from revaluations
  - (v) deductions in carrying amount
  - (vi) amounts written back
  - (vii) depreciation
  - (xi) other movements
- The financial statement should also disclose:
    - Whether or not, in determining the recoverable amount of items of property, plant and equipment, expected future cash flows have been discounted to their present values.
    - The existence and amounts of restrictions on title and property, plant and equipment pledged as security for liabilities.
    - The accounting policy for restoration costs relating to items of property, plant and equipment.
    - The amount of expenditures on account of property, plant and equipment in the course of construction, and
    - The amount of commitments for the acquisition of property, plant and equipment.
  - When items of property are stated at re-valued amounts, the financial statements should disclose:
    - The basis used to revalue the assets.
    - The effective date of revaluation.
    - Whether an independent valuer was involved.
    - The nature of any indices used to determine replacement cost.
    - The carrying amount of each class of property, plant and equipment that would have been included in the financial statements had the assets been carried at cost less depreciation.
    - The revaluation surplus, detailing the movement for the period.

- The portion of the depreciation charge relating to the revaluation.

## 18. INFRASTRUCTURE ASSET EUL POST MERGER

*Table 1: Indaka Local municipality EUL*

Indaka Local Municipality	
The useful lives of items of property, plant and equipment have been assessed as follows:	
Item	Average useful life
Land	Infinite
Buildings	15-50 years
Plant and machinery	10-15 years
Furniture and fixtures	5-7 years
Motor vehicles	5-7 years
Office equipment	3-7 years
Computer software	3-5 years
Infrastructure	
• Roads Gravel	3-7 years
• Roads Premix	10-15 years
• Storm Water	25-120 years

*Table 2: Mnambithi LM EUL details*

Mnambithi/Ladysmith Municipality			
Details	Years	Details	Years
<b>Infrastructure</b>		<b>Other</b>	
Roads and Paving	5-100	Buildings	10-50
Pedestrian Malls	20	Specialised Vehicles	3-20
Electricity	10-50	Other Vehicles	3-20
Water	10-100	Office Equipment	3-20
Sanitation	10-100	Furniture and Fittings	10
Housing	30	Watercraft	15
Stormwater	25-120	Bins and Containers	5-10
Community			
Buildings	10-50	Specialised Plant and Equipment	5-15

Recreational facilities	10-100	Other items of Plant and Equipment	5-15
Security	3-5 years	Land fill Sites	30

# REVISED EUL TABLE

330

Drug Asset Management Policy 2010/20

MAJOR_G CODE	MAJOR GROUP	MINOR_G CODE	MINOR GROUP	GROUP CODE	GROUP
30000	OTHER STRUCTURES (INFRASTRUCTURE)	32000	ROADS NETWORK	32101	BRIDGES VEHICLE CONCRETE
30000	OTHER STRUCTURES (INFRASTRUCTURE)	32000	ROADS NETWORK	32102	BRIDGES VEHICLE STEEL
30000	OTHER STRUCTURES (INFRASTRUCTURE)	32000	ROADS NETWORK	32103	BRIDGES VEHICLE TIMBER
30000	OTHER STRUCTURES (INFRASTRUCTURE)	32000	ROADS NETWORK	32104	BRIDGES PEDESTRIAN CONCRETE
30000	OTHER STRUCTURES (INFRASTRUCTURE)	32000	ROADS NETWORK	32105	BRIDGES PEDESTRIAN STEEL
30000	OTHER STRUCTURES (INFRASTRUCTURE)	32000	ROADS NETWORK	32106	BRIDGES PEDESTRIAN TIMBER
30000	OTHER STRUCTURES (INFRASTRUCTURE)	32000	ROADS NETWORK	32107	BRIDGES RAILWAY CONCRETE
30000	OTHER STRUCTURES (INFRASTRUCTURE)	32000	ROADS NETWORK	32108	BRIDGES RAILWAY STEEL
30000	OTHER STRUCTURES (INFRASTRUCTURE)	32000	ROADS NETWORK	32109	BRIDGES RAILWAY TIMBER
30000	OTHER STRUCTURES (INFRASTRUCTURE)	32000	ROADS NETWORK	32110	BRIDGES REINFORCED RETAINING WALLS EARTH
30000	OTHER STRUCTURES (INFRASTRUCTURE)	32000	ROADS NETWORK	32111	BRIDGES REINFORCED RETAINING WALLS CONCRETE
30000	OTHER STRUCTURES (INFRASTRUCTURE)	32000	ROADS NETWORK	32112	BRIDGES EXPANSION AND CONSTRUCTION JOINTS
30000	OTHER STRUCTURES (INFRASTRUCTURE)	32000	STORM WATER NETWORK	32201	STORM WATER CULVERTS CONCRETE
30000	OTHER STRUCTURES (INFRASTRUCTURE)	32000	STORM WATER NETWORK	32202	STORM WATER CULVERTS ARCO
30000	OTHER STRUCTURES (INFRASTRUCTURE)	32000	STORM WATER NETWORK	32203	STORM WATER DRAINS EARTHWORKS
30000	OTHER STRUCTURES (INFRASTRUCTURE)	32000	STORM WATER NETWORK	32204	STORM WATER DRAINS CONCRETE LINING
30000	OTHER STRUCTURES (INFRASTRUCTURE)	32001	STORM WATER NETWORK	32205	STORM WATER CATCH PITS
30000	OTHER STRUCTURES (INFRASTRUCTURE)	32000	STORM WATER NETWORK	32206	STORM WATER PIPES
30000	OTHER STRUCTURES (INFRASTRUCTURE)	32000	STORM WATER NETWORK	32210	STORM WATER ATTENUATION PONDS
30000	OTHER STRUCTURES (INFRASTRUCTURE)	32000	STORM WATER NETWORK	32211	STORM WATER OPEN CHANNELS LINED
30000	OTHER STRUCTURES (INFRASTRUCTURE)	32000	STORM WATER NETWORK	32212	STORM WATER OPEN CHANNELS UNLINED
30000	OTHER STRUCTURES (INFRASTRUCTURE)	32000	STORM WATER NETWORK	32213	STORM WATER PUMP STATIONS BUILDINGS
30000	OTHER STRUCTURES (INFRASTRUCTURE)	32000	STORM WATER NETWORK	32214	STORM WATER PUMP STATIONS CIVIL WORKS
30000	OTHER STRUCTURES (INFRASTRUCTURE)	32000	STORM WATER NETWORK	32215	STORM WATER PUMP STATIONS ELECTRICAL
30000	OTHER STRUCTURES (INFRASTRUCTURE)	32000	STORM WATER NETWORK	32216	STORM WATER PUMP STATIONS MECHANICAL
30000	OTHER STRUCTURES (INFRASTRUCTURE)	32000	STORM WATER NETWORK	32217	STORM WATER PUMP STATIONS PERIMETER PROTECTION AND FENCING